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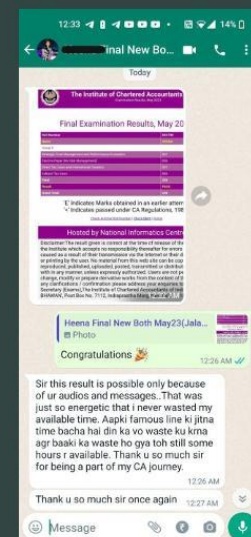
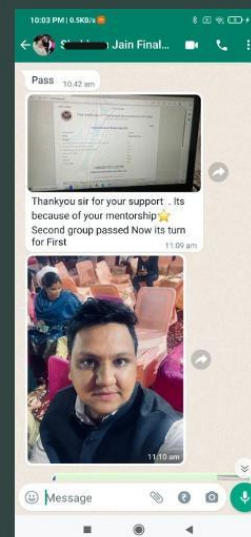
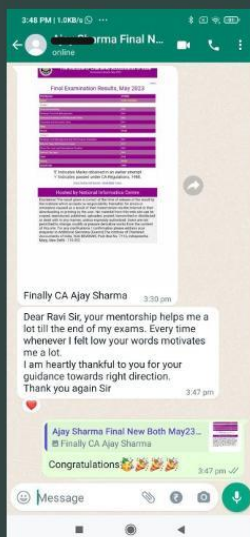
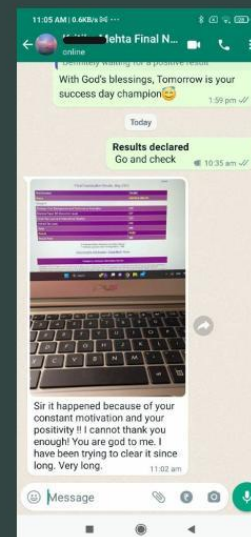
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Chapter 1 BASIC CONCEPTS

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q9, Q11	Q5, Q15	Q10, Q14			Q8, Q12		Q7, Q13	Q4, Q6	Q2
RTP			Q16,Q 18	Q3	Q17				Q1			
Q & A												
MTP		Q7, Q8, Q9			Q11				Q10			
PYP	Q14, Q17	Q4				Q2			Q1, Q3	Q15		
RTP	Q12	Q6	Q13		Q5							Q16

Section A MULTIPLE CHOICE QUESTIONS (MCQS)

1. Mr. A has taken two ULIPs. ULIP "X" is issued on 1.1.2023 and ULIP "Y" on 1.5.2024. The sum assured of ULIP "X" and ULIP "Y" is ₹ 30 lakhs and ₹ 40 lakhs, respectively. The annual premium paid by Mr. A during the P.Y. 2023-24 is ₹ 3 lakhs and ₹ 4 lakhs, respectively. What would be the taxability of the consideration received by Mr. A on maturity of both the ULIPs?

- (a) Consideration received on the maturity of ULIP "X" would be exempt u/s 10(10D) while the profits and gains from receipt of consideration on the maturity of ULIP "Y" would be taxable.
- (b) Consideration received on the maturity of ULIP "Y" would be exempt u/s 10(10D) while the profits and gains from receipt of consideration on the maturity of ULIP "X" would be taxable.
- (c) Consideration received on the maturity of both ULIP "X" and ULIP "Y" would be exempt u/s 10(10D)
- (d) The profits and gains from receipt of consideration on the maturity of both ULIP "X" and ULIP "Y" would be taxable. (RTP May '22)

Ans: (a)

2. Mr. Rishabh, aged 65 years and a resident in India, has a total income of ₹ 4,50,00,000, comprising long term capital gain taxable under section 112 of ₹ 85,00,000, long term capital gain taxable under section 112A of ₹ 75,00,000 and other income of ₹ 2,90,00,000. What would be his tax liability for A.Y. 2024 -25. Assume that Mr. Rishabh has opted for the provisions of section 115BAC. (RTP May '23, MTP 2 Marks Sep '23)

- (a) ₹ 1,41,40,750

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- (b) ₹ 1,38,86,990
- (c) ₹ 1,38,84,390
- (d) ₹ 1,39,81,240

Ans: (b) *(As per amendment in the tax structure as per 115BAC the answer will be none of them it is Rs 1,38,50,200)*

3. During the P.Y.2023-24, Mr. Ranjit has short-term capital gains of ₹ 95 lakhs taxable under section 111A, long-term capital gains of ₹ 110 lakhs taxable under section 112A and business income of ₹ 90 lakhs. Which of the following statements is correct?

- (a) Surcharge@25% is leviable on income-tax computed on total income of ₹ 2.95 crore, since total income exceeds ₹ 2 crore.
- (b) Surcharge@15% is leviable on income-tax computed on total income of ₹ 2.95 crore.
- (c) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 2.05 crore; in respect of business income, surcharge is leviable@25% on income-tax, since total income exceeds ₹ 2 crore.
- (d) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 2.05 crore; surcharge@10% is leviable on income-tax computed on business income, since the same exceeds ₹ 50 lakhs but is less than ₹ 1 crore. **(RTP Nov '19)**

Ans: (b)

4. Income derived from farm building situated in the immediate vicinity of an agricultural land (not assessed to land revenue) would be treated as agricultural income if such land is situated in –

- (a) an area at a distance of 3 kms from the local limits of a municipality and has a population of 80,000 as per last census
- (b) an area within 1.5 kms from the local limits of a municipality and has a population of 12,000 as per last census
- (c) an area within 2 kms from the local limits of a municipality and has a population of 11,00,000 as per last census
- (d) an area within 8 kms from the local limits of a municipality and has a population of 10,50,000 as per last census **(MTP 1 Mark March '23)**

Ans: (a)

5. Which of the following incomes are exempt incomes as per the provisions of Income-tax Act, 1961?

- (i) Allowance paid by Government to a citizen of India for rendering services outside India
 - (ii) Death-cum-retirement gratuity received by a government employee
 - (iii) Any sum received under a life insurance policy taken on 01.05.2016, if the premium payable for any of the years exceeds 10% of the actual capital sum assured.
 - (iv) Any payment from National Pension System Trust to an employee on account of closure of his NPS account.
- (a) (i), (ii), (iii), (iv)
 - (b) (i) & (ii)
 - (c) (i), (ii) & (iv)
 - (d) (ii) & (iv) **(MTP 1 Mark, Oct'19)**

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Paper 3 - Taxation**Ans: (b)**

6. **The Gupta HUF in Maharashtra comprises of Mr. Harsh Gupta, his wife Mrs. Nidhi Gupta, his son Mr. Deepak Gupta, his daughter-in-law Mrs. Deepti Gupta, his daughter Miss Preeti Gupta. Which of the members of the HUF are eligible for coparcenary rights?**

- (a) Only Mr. Harsh Gupta and Mr. Deepak Gupta
- (b) Only Mr. Harsh Gupta, Mr. Deepak Gupta and Miss Preeti Gupta
- (c) Only Mr. Harsh Gupta, Mr. Deepak Gupta, Mrs. Nidhi Gupta and Mrs. Deepti Gupta
- (d) All the members are co-parceners **(MTP 1 Mark March '23)**

Ans: (b)

7. **During the P.Y.2023-24, Mr. Rohan has ₹ 80 lakhs of short-term capital gains taxable u/s 111A, ₹ 70 lakhs of long-term capital gains taxable u/s 112A and business income of ₹ 2.90 crores. Which of the following statements is correct?**

- (a) Surcharge@25% is leviable on income-tax computed on total income of ₹ 4.40 crores
- (b) Surcharge@15% is leviable on income-tax computed on total income of ₹ 4.40 crore
- (c) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 1.50 crore; in respect of business income of ₹ 2.90 crores, surcharge is leviable@25% on income-tax
- (d) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 1.50 crore; in respect of business income of ₹ 2.90 crores, surcharge is leviable@37% on income-tax **(MTP 2 Marks Sep'22)**

Ans: (c)

8. **Miss Nish (68 years) is a resident individual. For the Assessment Year 2024-25, she has following income: Long-term capital gain on transfer of equity shares Rs.1,80,000 (Securities Transaction Tax has been paid on acquisition and transfer of the said shares) Other income Rs.2,75,000. Calculate the tax liability of Miss Nish for Assessment Year 2024-25.**

- (a) Nil
- (b) Rs. 5,670
- (c) Rs. 5,720
- (d) Rs. 8,320 **(MTP 2 Marks, Nov'21)**

Ans: (c)

9. **Under the provisions of the Income-tax Act, 1961, the term "Person" would not include:**

- (a) A body corporate incorporated in a country outside India
- (b) A Limited Liability Partnership (LLP)
- (c) Indian branch of a foreign company
- (d) A local authority **(MTP 1 Mark, April'19)**

Ans : (c)

10. **XYZ LLP falls under which category of person?**

- (a) Firm
- (b) Company

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- (c) Association of persons
- (d) Artificial judicial person **(MTP 1 Mark, May'20)**

Ans :(c)

11. (Also includes concepts of Income Which Do Not Form a Part of Total Income) Mr. Devansh has agricultural income of Rs.2,30,000 and business income of Rs.2,45,000. Which of the following statements are correct?

- (a) Agricultural income has to be aggregated with business income for tax rate purposes.
- (b) No aggregation is required since agricultural income is less than basic exemption limit.
- (c) No aggregation is required since business income is less than basic exemption limit.
- (d) Agricultural income is exempt under section 10(1) but the same has to be aggregated with business income, since it exceeds Rs. 5,000. **(MTP 1 Mark, March'19)**

Ans: (c)

12. Mr. Ashutosh, aged 65 years and a resident in India, has a total income of ₹ 3,20,00,000, comprising long term capital gain taxable under section 112 of ₹ 57,00,000, long term capital gains taxable under section 112A of ₹ 65,00,000 and other income of ₹ 1,98,00,000. What would be his tax liability for A.Y. 2024-25. Assume that Mr. Ashutosh has not opted for the provisions of section 115BAC.

- (a) ₹ 90,05,880
- (b) ₹ 97,25,690
- (c) ₹ 97,34,400
- (d) ₹ 97,22,440**(MTP 2 Marks, Oct'21)**

Ans: (d)

13. Mr. Ashish's total income comprises of long-term capital gains on sale of land ₹ 5 lakhs; short-term capital gains on sale of STT paid listed equity shares ₹ 2 lakhs; income from lottery ₹ 1 lakh and savings bank interest ₹ 30,000. He invests ₹ 1.50 lakhs in PPF. His tax liability for A.Y.2024-25, assuming that he is a resident Indian of the age of 40 years and does not opt for the provisions of section 115BAC, is -

- (a) ₹ 1,64,800
- (b) ₹ 1,66,400
- (c) ₹ 1,14,400
- (d) ₹ 1,13,300 **(MTP 2 Marks Oct'22)**

Ans: (c)

14. Sham Singh spends ₹ 1,00,000 on cultivation and harvesting of his agricultural produce. 50% of the production is sold for ₹1,10,000 and rest is stored for self-consumption. What is the amount of the agricultural income?

- (a) Rs. 60,000
- (b) Rs. 1,10,000
- (c) Rs.1,20,000
- (d) Rs. 1,00,000 **(MTP 2 Marks, Oct'20)**

Ans: (a)

15. Which of the following statements is/are true in respect of taxability of agricultural income under the Income-tax Act, 1961?

- (i) **Any income derived from saplings or seedlings grown in a nursery is**

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agricultural income exempt from tax u/s 10(1).

- (ii) 60% of dividend received from shares held in a tea company is agricultural income exempt from tax u/s 10(1).
- (iii) While computing income tax liability of an Assessee aged 50 years, agricultural income is required to be added to total income only if net agricultural income for the P.Y. exceeds Rs. 5,000 and the total income (including net agricultural income) exceeds Rs.2,50,000.
- (iv) While computing income tax liability of an Assessee aged 50 years, agricultural income is required to be added to total income only if net agricultural income for the P.Y. exceeds Rs. 5,000 and the total income (excluding net agricultural income) exceeds Rs.2,50,000.

Choose from the following options:

- (a) (i) and (iii)
- (b) (ii) and (iii)
- (c) (i) and (iv)
- (d) (i), (ii) and (iv)

(MTP 2 Marks, Oct'19)

Ans: (c)

16. Mr. Ajay is a recently qualified doctor. He joined a reputed hospital in Delhi on 01.01.2024. He earned total income of ₹ 3,40,000 till 31.03.2024. His employer advised him to claim rebate u/s 87A while filing return of income for A.Y. 2024-25. He approached his father to enquire regarding what is rebate u/s 87A of the Act. His father told him:

- (i) An individual who is resident in India and whose total income does not exceed ₹ 3,50,000 is entitled to claim rebate under section 87A.
- (ii) An individual who is resident in India and whose total income does not exceed ₹ 5,00,000 is entitled to claim rebate under section 87A.
- (iii) Maximum rebate allowable under section 87A is ₹ 5,000.
- (iv) Rebate under section 87A is available in the form of exemption from total income.
- (v) Maximum rebate allowable under section 87A is ₹ 2,500.
- (vi) Rebate under section 87A is available in the form of deduction from tax liability.

As a tax expert, do you agree with the explanation given by Mr. Ajay's father? Choose the correct option from the following:

- (a) (ii), (iii), (vi)
- (b) (i), (v), (vi)
- (c) (ii), (iii), (iv)
- (d) (i), (iv), (v)
- (e) (ii) (v)(vi)

(RTP May'19)

Ans: ~~The Answer is (b)~~ **(As per amendment under the new default scheme An individual who is resident in India and whose total income does not exceed ₹ 7,00,000 and Maximum rebate allowable under section 87A is ₹ 25,000)**

17. Mr. Ajay is found to be the owner of two gold chains of 50 gms each (market value of which is ₹ 1,45,000 each) during the financial year ending 31.3.2014 but he could offer satisfactory explanation for ₹ 50,000 spent on acquiring these gold chains. As per section 115BBE, Mr. Ajay would be liable to pay tax of -

- (a) ₹ 1,87,200

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- (b) ₹ 2,26,200
 (c) ₹ 1,49,760
 (d) ₹ 1,80,960 (RTP May '20)

Ans: (a)

18. Mr. Anay (aged 25) has agricultural income of ₹ 2,10,000 and business income of ₹ 2,35,000. Which of the following statement is correct?

- (a) Agricultural income always has to be aggregated with business income for rate purposes
 (b) No aggregation is required since business income which constitutes his total income, is less than basic exemption limit
 (c) No aggregation is required since agricultural income is less than basic exemption limit
 (d) Agricultural income is exempt under section 10(1) but the same has to be aggregated with business income, since it exceeds ₹ 5,000. (RTP May '19)

Ans: (b)**Question & Answers****Question 1**

Mr. Kabra is engaged in the business of growing and curing (further processing) coffee in the state of Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31-03-2024 are given hereunder:

Particulars	AMOUNT ₹
Opening balance of the car as on 01-04-2023	3,00,000
Opening balance of machinery as on 01-04-2023	15,00,000
Expenses incurred in growing coffee	3,10,000
Expenses of curing coffee	3,00,000
Sale value of cured coffee	22,00,000

The car is used for the agricultural operations and the machine was used for coffee curing business operations. Compute the income arising from the above activities for the assessment year 2024-25 and the written down value as on 01-04-2023 (WDV as on 31-03-2024 less depreciation for the P.Y. 2023-24). (PYP 4 Marks May'22)

Answer 1

Computation of Income from growing and curing coffee of Mr. Kabra for A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Income from growing and curing coffee		
Sale value of cured coffee		22,00,000
Less: Expenses incurred in growing coffee	3,10,000	
Depreciation on Car (15% of ₹ 3,00,000)	45,000	3,55,000
Less: Expenses of curing coffee	3,00,000	18,45,000
Depreciation on machinery (15% of ₹ 15,00,000)	2,25,000	5,25,000
		13,20,000

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Business Income [25% of ₹ 13,20,000]		3,30,000
Agricultural Income [75% of ₹ 13,20,000]		9,90,000
Computation of Written Down Value as on 1.4.2024		
Opening balance of Car as on 1.4.2023	3,00,000	
Less: Depreciation@15% on ₹ 3 lakh	45,000	
WDV of car as on 1.4.2024	2,55,000	
Opening balance of machinery as on 1.4.2023	15,00,000	
Less: Depreciation@15% on ₹ 15 lakh	2,25,000	
WDV of machinery as on 1.4.2024	12,75,000	

Question 2

Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion. Attempt any two out of the following three parts:

- Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of ₹ 10,000. He sub-lets the land to Mr. Manish for a monthly rent of ₹ 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of ₹ 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish**
- Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income-tax since paddy as grown on land is not fit for sale in its original form (PYP 4 Marks, Jan'21)**

Answer 2

- The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income under section 2(1A) (a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agriculture activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.
Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1). As per section 14A, no deduction is allowable in respect of exempt income.
- The income from the process ordinarily employed to render the produce fit to be taken to the market would be agricultural income under section 2(1A) (b)(ii). The process of making the rice ready from paddy for the market may involve manual operations or mechanical operations, both of which constitute processes ordinarily employed to make the product fit for the market.
Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.

Question 3

The assessee is found to be the owner of the gold (market value of which is ₹ 50,00,000) during the financial year ending 31-03-2024 but he recorded to have spent ₹ 10,00,000 in acquiring the same. Explain how the Assessing Officer will deal with the issue. (PYP 2 Marks May'22)

Answer 3

As per section 69B, if the assessee is found to be the owner of gold (market value of which is ₹ 50 lakhs) during the financial year ending 31.3.2022 but he has recorded to have spent only ₹ 10 lakhs in acquiring it, the Assessing Officer can add the difference of the market value of such gold and ₹ 10 lakhs i.e., ₹ 40 lakhs as the

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income of the assessee for A.Y.2024-25, if the assessee offers no satisfactory explanation thereof. Such income would be chargeable to tax@78% (@60% plus surcharge @25% and cess @4%).

Question 4

Mr. Rajat Saini, aged 32 years, furnishes the following details of his total income for the A.Y. 2024-25:

Income from Salaries	27,88,000
Income from House Property (Computed)	15,80,000
Interest Income from FDR's	7,22,000

He has not claimed any deduction under Chapter VI-A. You are required to compute tax liability of Mr. Rajat Saini as per the regular provisions of Income-tax Act, 1961. (PYP 5 Marks, Nov'18, PYP May '20)

Answer 4

Computation of tax liability of Mr. Rajat Saini for the A.Y. 2024-25

Particulars	₹	₹
Income from Salaries		27,88,000
Income from house property (computed)		15,80,000
Interest income from FDR's		7,22,000
Total Income		50,90,000
Tax Liability		
(A) Tax payable including surcharge on total income of ₹ 50,90,000		
Upton ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 – ₹ 50,90,000 @30%	12,27,000	
	13,39,500	
Add: Surcharge @ 10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore.	1,33,950	14,73,450
(B) Tax Payable on total income of ₹ 50 lakhs		
(₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000, being 30% of ₹ 40,00,000)		13,12,500
(C) Excess tax payable (A)-(B)		1,60,950
(D) Marginal Relief (₹ 1,60,950 – ₹ 90,000, being the amount of income in excess of ₹ 50,00,000)		70,950
Tax payable (A)-(D) [₹ 14,73,450 – ₹ 70,950]		14,02,500
Add: Education cess@1% and SHEC@2%		42,075
Add: EC & SHEC @ 4%		56,100
Tax Liability		14,58,600
Tax Liability (Rounded off)		14,58,600

Question 5

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

- Rent received for letting out agricultural land for a movie shooting.**
- Income from sale of seedlings in a nursery adjacent to the agricultural lands**

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owned by an assessee. (RTP Nov '20)

Answer 5

i) 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.

ii) 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.

Question 6

Mr. Charan grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. He furnished the following details for the financial year 2023-24:

- Cost of cultivation of 40% of paddy produce is ₹ 9,00,000 which is sold for ₹ 18,50,000.
- Cost of cultivation of balance 60% of paddy is ₹ 14,40,000 and the market value of such paddy is ₹ 28,60,000.
- Incurred ₹ 3,60,000 in the manufacturing process of rice on the balance (60%) paddy.

The rice was sold for ₹ 38,00,000.

Compute the Business income and Agricultural Income of Mr. Charan for A.Y. 2024-25. (RTP Nov '18)

Answer 6

Computation of Business Income and Agriculture Income of Mr. Charan for A.Y. 2024-25

Particulars	Business Income	Agricultural Income	
	₹	₹	₹
Sale of Rice			
Business income			
Sale Proceeds of Rice	38,00,000		
Less: Market Value of paddy (60%)	28,60,000		
Less: Manufacturing expenses	3,60,000		
Agricultural Income	5,80,000		
Market value of paddy (60%)		28,60,000	
Less: Cost of cultivation		14,40,000	14,20,000
Sale of Paddy			
Agricultural Income			
Sale proceeds of paddy produce (40%)		18,50,000	
Less: Cost of cultivation		9,00,000	9,50,000

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23,70,000

Question 7

For the Assessment year 2024-25, the Gross Total Income of Mr. Manas, a resident in India aged 65 years, was Rs.8,18,240 which includes long-term capital gain of Rs.2,45,000 and Short-term capital gain of Rs. 98,000. The Gross Total Income also includes interest income of Rs. 15,000 from savings bank deposits with banks. Mr. Manas has invested in PPF Rs.1,40,000 and also paid a medical insurance premium Rs. 31,000. Mr. Manas also contributed Rs. 40,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Manas. Assumed that they had not opted for 115BAC. (MTP 7 Marks, Oct'18)

Answer 7

Computation of total income and tax payable by Mr. Manas for the A.Y. 2024-25

Particulars	Rs.	Rs.
Gross total income including long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A:		
Under section 80C in respect of PPF deposit	1,40,000	
Under section 80D (it is assumed that premium of Rs.31,000 is paid by otherwise than by cash. The deduction would be restricted to Rs.30,000 (as per amendment Rs. 50,000 is the limit for senior citizen.) , since Mr. Manas is a senior citizen)	30,000 31,000	
Under section 80G (See Notes 1 & 2 below)	19,662	
Under section 80TTA (See Note 3 below)	10,000	2,00,662
Total income (excluding long term capital gains)		3,72,578
Total income (including long term capital gains)		6,17,578
Total income (rounded off)		6,17,580
Tax on total income (including long-term capital gains of Rs.2,45,000)		
LTCG Rs.2,45,000 x 20%		49,000
Balance total income Rs.3,72,580		3,629
Add: EC & HSEC @ 4% (as per amendment)		52,629
		1,580
		2105
Total tax liability		54,734
Total tax liability (rounded off)		54,730

Notes:

1. **Computation of deduction under section 80G:**

Particulars	Rs.
Gross total income (excluding long term capital gains)	5,73,240
Less: Deduction under section 80C, 80D & 80TTA	1,80,000
	3,93,240
10% of the above	39,324
Contribution made	40,000
Lower of the two eligible for deduction under section 80G	39,324
Deduction under section 80G – 50% of Rs.39,324	19,662

2. Deduction under section 80G is allowed only if amount is paid by any mode other than

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cash, in case of amount exceeding Rs. 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.

- Deduction of up to Rs. 10,000 under section 80TTA is allowed, inter alia, to an individual assessee if gross total income includes interest income from deposits in a saving account with bank.

Question 8

Examine with brief reasons whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

Rent of Rs. 72,000 received by Mr. X for letting out agricultural land for a movie shooting is an agricultural income and hence exempt under section 10(1). (MTP 2 Marks, Oct'18)

Answer 8

False: 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. In effect, the land is not being put to use for agricultural purposes. Therefore, Rs. 72,000, being rent received by Mr. X from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources"

Question 9

Explain the difference between Circulars and Notifications in the context to the Income-tax Act, 1961.

(MTP 3 Marks, Aug'18)

Answer 9

Difference between Circulars and notifications

Circulars	Notifications
Circulars are issued by CBDT.	Notifications are issued by the Central Government. The CBDT is also empowered to issue notifications.
Circulars are issued with certain specific problems and to clarify doubt regarding the scope and meaning of certain provisions of the Act.	Central Government issues notifications to effect the provisions of the Act and CBDT issues notifications to make and amend Income-tax Rules.
The department is bound by the circulars. While such circulars are not binding on the assesses, they can take advantage of beneficial circulars.	Notifications are binding in nature. Both department and assesses are bound by the notifications.

Question 10

Compute the tax liability of Ms. Kajal for A.Y. 2024-25, a female resident aged 40 years, where her total income is ₹2,00,50,000 comprising of business income. Ms. Kajal opts for the provisions of section 115BAC. (MTP 3 Marks April 22)

Answer 10

Computation of tax liability of Ms. Kajal under section 115BAC for the A.Y.2024-25

	₹	₹
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Paper 3 - Taxation

(A)	Tax payable including surcharge on total income of ₹ 2,00,50,000		
	Upto ₹ 2,50,000 ₹ 3,00,000 Nil	Nil	
	₹ ₹ 3,00,000 – ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	15,000	
	₹ 6,00,001 – ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
	₹ 9,00,001 – ₹ 12,00,000 [₹ 3,00,000 @ 15%] 45,000	45,000	
	₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000	60,000	
	Above ₹ 15,00,000 @30%	55,65,000	
	Add: Surcharge @ 25% (since total income exceeds ₹ 2 crore but does not exceed ₹ 5 crore) (As per amendment surcharge will be 25% for income exceeding ₹ 2 crore)	57,15,000	
		14,28,750	71,43,750
(B)	Tax payable on total income of ₹ 2 crore [(₹ 15,000 plus ₹ 30,000 plus ₹ 45,000 plus ₹ 60,000 plus ₹ 62,500 plus ₹ 55,50,000) plus surcharge @15%]		65,55,000
(C)	Excess tax payable (A)-(B)		5,88,750
(D)	Marginal Relief (₹ 5,88,750 – ₹ 50,000, being the amount of income in excess of ₹ 2,00,00,000)		5,38,750
(E)	Tax payable before cess (A – D)		66,05,000
	Add: Health and education cess @4%		2,64,200
	Tax payable		68,69,200

Alternative Presentation

Computation of tax liability of Ms. Kajal for the A.Y.2022-23

		₹	₹
(A)	Tax payable including surcharge on total income of ₹ 2,00,50,000		
	Upto ₹ 2,50,000 ₹ 3,00,000 Nil	Nil	
	₹ ₹ 3,00,000 – ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	15,000	
	₹ 6,00,001 – ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
	₹ 9,00,001 – ₹ 12,00,000 [₹ 3,00,000 @ 15%] 45,000	45,000	
	₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000	60,000	
	Above ₹ 15,00,000 @30%	55,65,000	
	Add: Surcharge @ 25% (since total income exceeds ₹ 2 crore but does not exceed ₹ 5 crore) (As per amendment surcharge will be 25% for income exceeding ₹ 2 crore)	57,15,000	
		14,28,750	71,43,750
(B)	Tax payable on total income of ₹ 2 crore [(₹ 15,000 plus ₹ 30,000 plus ₹ 45,000 plus ₹ 60,000 plus ₹ 62,500 plus ₹ 55,50,000) plus surcharge @15%]		65,55,000

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Paper 3 - Taxation

	₹ 55,50,000) plus surcharge @15%]		
(C)	Total income less ₹ 2 crore		50,000
(D)	Tax payable on total income of ₹ 2 crore plus excess of total income over ₹ 2 crore (B + C)		66,05,000
(E)	Tax payable: Lower of A and D		66,05,000
	Add: Health and education cess @4%		2,64,200
	Tax payable		68,69,200
(F)	Marginal Relief (A -D)		5,38,750

Question 11

Miss Deepika, a citizen of India, got married to Mr. John of Australia and left India for the first time on 20.8.2023. She has not visited India again during the P.Y. 2023 -24. She has derived the following income for the year ended 31-3-2024:

	Particulars	Rs.
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Kanyakumari.	1,50,000
(ii)	Income from sale of coffee grown and cured in Kodagu, Karnataka	2,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo. Sale consideration was received in Chennai.	5,00,000
(iv)	Income from sale of tea grown and manufactured in West Bengal.	12,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	2,00,000

You are required to determine the residential status of Miss Deepika and compute the business income and agricultural income of Miss. Deepika for the Assessment Year 2024-25. (MTP 7 Marks, Oct'20)

Answer 11

Miss Deepika is said to be resident if she satisfies any one of the following basic conditions:

- Has been in India during the previous year for a total period of 182 days or more (or)
- Has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days during the previous year.

Miss Deepak's stay in India during the P.Y.2023-24 is 142 days [30+31+30+31+20] which is less than 182 days. However, her stay in India during the P.Y.2023-24 exceeds 60 days. Since, she left India for the first time, her stay in India during the four previous years prior to P.Y.2023-24 would be more than 365 days. Hence, she is a resident for P.Y.2023-24.

Further, Miss Deepika would be "Resident and ordinarily resident" in India in during the previous year 2023-24, since her stay in India in the last seven previous years prior to P.Y.2023-24 is more than 730 days and she must be resident in the preceding ten years.

Computation of business income and agricultural income of Miss Deepika for A.Y. 2024-25

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Particulars		Income	Business Income ₹	Agricultural Income ₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Kanyakumari (Apportioned between business and agricultural income in the ratio of 35:65 as per Rule 7A of Income-tax Rules, 1962)	1,50,000	52,500	97,500
(ii)	Income from sale of coffee grown and cured in Kodagu, Karnataka (Apportioned between business and agricultural income in the ratio of 25:75, as per Rule 7B(1) of the Income-tax Rules, 1962)	2,00,000	50,000	1,50,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo and received in Chennai [See Note 1 below]	5,00,000	5,00,000	-
(iv)	Income from sale of tea grown and manufactured in West Bengal (Apportioned between business and agricultural income in the ratio of 40:60 as per Rule 8 of the Income-tax Rules, 1962)	12,00,000	4,80,000	7,20,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out on land [See Note 2 below]	<u>2,00,000</u>	-	<u>2,00,000</u>
		22,50,000	10,82,500	11,67,500

Notes:

- (1) Since MS Deepika is resident and ordinarily resident in India for A.Y. 2024-25, her global income is taxable in India. Entire income from sale of coffee grown, cured, roasted and grounded in Colombo is taxable as business income since such income is earned from sale of coffee grown, cured, roasted and grounded outside India i.e., in Colombo.
- (2) As per Explanation 3 to section 2(1A), income derived from sapling or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. Hence, income of Rs.2,00,000 from sapling and seedling grown in a nursery at Cochin is agricultural income.

Question 12

Examine with reasons whether the following receipts are taxable or not under the provisions of Income-tax Act, 1961.

- Mr. Akash received a sum of ₹ 3,00,000 as compensation from "Sahayata Foundation" towards the loss of property on account of Flood Disaster at Chennai.**
- Rent of ₹ 60,000 received for letting out agricultural land for a movie shooting.**
- Dividend of ₹ 17 lakhs received by Mr. Yatin during P.Y. 2023-24 from A Ltd., a domestic company.**
- Agricultural income of ₹ 1,30,000 of Mr. Sunil from a land situated in Canada. (RTP May '18)**

Answer 12**Taxability of receipts under the provisions of Income-tax Act,**

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Paper 3 - Taxation

1961

	Taxable/Not taxable	Reason
(a)	Taxable	As per section 10(10BC), any amount received or receivable by an individual as compensation, on account of any disaster, from the Central Government, State Government or a local authority is exempt from tax, to the extent the individual has not been allowed deduction under any other provision of Income-tax Act, 1961 on account of any loss or damage caused by such disaster. However, in this case, since Mr., Akash has received a compensation of ₹ 3,00,000 from Sahayata Foundation, and not from the Central Government or State Government or local authority, no exemption will be available under section 10(10BC) and the same is chargeable to tax.
(b)	Taxable	Agricultural income is exempt from income-tax as per section 10(1). Agriculture income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In this case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹ 60,000, being rent received from letting out agricultural land for movie shooting, is not exempt under section 10(1) and the same is chargeable to tax.
(c)	Partly taxable (Taxable)	Dividend received from a domestic company is subject to dividend distribution tax in the hands of domestic company under section 115-O. Dividend income received from an Indian company, which is subject to dividend distribution tax, is exempt under section 10(34). However, dividend in excess of ₹ 10 lakhs received, inter alia, by an individual is chargeable to tax under section 115BBDA and not exempt under section 10(34). Therefore, in this case, dividend received upto ₹ 10 lakh is exempt in the hands of Mr. Yatin under section 10(34). ₹ 7 lakh, being dividend in excess of ₹ 10 lakh, is taxable in his hands @10% as per section 115BBDA. As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.
(d)	Taxable	Agricultural income from a land situated in any foreign country is not exempt under section 10(1) and hence, is chargeable to tax. Therefore, in this case, agricultural income of ₹ 1,30,000 of Mr. Sunil from land situated in Canada is taxable.

Question 13

Mr. Rana, a resident and ordinarily resident aged 42 years, manufactures rubber from the latex processed from rubber plants grown in Kerala. Thereafter, he sold the rubber for ₹ 47 lakhs. The cost of growing rubber plants was ₹ 25 lakhs and the cost of manufacturing rubber was ₹ 7 lakhs. He has no other income during

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the previous year 2023-24. Compute his tax liability for the Assessment Year 2024-25. (RTP May '19)

Answer 13

In cases where the assessee himself grows rubber plants and manufactures rubber processed from latex obtained from rubber plants in India, then, as per Rule 7A, 35% of profit on sale of rubber is taxable as business income under the head "Profits and gains from business or profession", and the balance 65% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of rubber processed from latex = ₹ 47 lakhs – ₹ 25 lakhs – ₹ 7 lakhs = ₹ 15 lakhs

Agricultural Income = 65% of ₹ 15 lakhs = ₹ 9.75 lakhs Business Income = 35% of ₹ 15 lakhs = ₹ 5.25 lakhs.

The tax liability of Mr. Rana has to be computed applying the concept of partial integration, since his total income comprises of both agricultural income and non-agricultural income and his agricultural income exceeds ₹ 5,000 p.a and his non-agricultural income exceeds the basic exemption limit i.e., ₹ 2,50,000 (applicable, in his case).

Accordingly, his tax liability would be computed in the following manner:

Computation of tax liability of Mr. Rana for the A.Y. 2024-25

Particulars	₹
Tax on total income of ₹ 15,00,000, being agricultural income and non-agricultural income	2,62,500
Less: Tax on agricultural income and basic exemption limit i.e., ₹ 12,25,000 [₹ 9,75,000 plus ₹ 2,50,000]	1,80,000
	82,500
Add: Health and Education cess@4%	3,300
Total Tax liability	85,800

Question 14

Briefly explain the purpose for which the words "PROVISO" and "EXPLANATION" are incorporated under various sections of the Income-tax Act, 1961. (PYP 4 Marks, May'18)

Answer 14

Proviso: The Proviso to a section is incorporated to specify the exception(s) to the provision contained in the respective section i.e., the proviso spells out the cases where the provision contained in the respective section would not apply or where the provision contained in the respective section would apply with certain modification.

Explanation: An Explanation is incorporated in a section to provide a clarification relating to the provision contained in that section. Generally, an Explanation is clarificatory in nature.

Question 15

Mr. X a resident, aged 56 years, till recently was a successful businessman filing his return of incomes regularly and promptly ever since he obtained PAN card. During the COVID- Pandemic period his business suffered severely and he incurred huge losses. He was not able to continue his business and finally on 1st January, 2024 he decided to wind-up his business which he also promptly intimated to the jurisdictional Assessing Officer about the closure of his business. The Assessing Officer sent him a notice to tax income of A.Y. 2024-25 during the A.Y. 2023-24 itself. Does the Assessing Officer have the power to do so? Are there

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Paper 3 - Taxation

any exceptions to the general rule “Income of the previous year is assessed in the assessment year following the previous year”? (PYP 4 Marks Nov ‘22)

Answer 15

Yes, he has the power to do so.

Since the business of Mr. X is discontinued on 1st January, 2024, the income of the period from 1.4.2023 to 1.1.2024 may, at the discretion of the Assessing Officer, be charged to tax in A.Y.2023-24 itself.

Following are the other exceptions to the general rule “Income of the previous year is assessed in the assessment year following the previous year” i.e., the income of the previous year is assessed in the previous year itself.

- (i) Shipping business of non-resident
- (ii) Persons leaving India with no present intention of returning
- (iii) AOP/BOI/Artificial Juridical Person formed for a particular event or purpose and likely to be dissolved
- (iv) Persons likely to transfer property to avoid tax.

Question 16

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

Cash credit of ₹ 1,50,000 were traced in the books of accounts of Mr. Yogesh for which no explanation about its source was provided. Such income is taxable @30% under section 115BB in the hands of Yogesh. (RTP Nov ‘23)

Answer 16

The statement is incorrect.

Unexplained cash credit are taxable @60%plus surcharge @25% plus cess @4% under section 115BBE.

Question 17

Mr. Avani, a resident aged 25 years, manufactures tea leaves from the Tea plants grown by him in India. These are then sold in the India market for ₹ 40 lakhs. The cost of growing tea plants was ₹ 15 lakhs and the cost of manufacturing tea leaves was ₹ 10 lakhs. Compute her tax liability for the Assessment Year 2024-15. (PYP 7 Marks, May’18)

Answer 17

Computation of tax liability of Ms. Avani for the A.Y. 2024-25

In cases where the assessee himself grows tea leaves and manufactures tea in India, then, as per Rule 8 of 40% of profit on sale of tea is taxable as business income under the head “Profits and gains from business or profession”, and the balance 60% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of tea = ₹ 40 lakhs – ₹ 15 lakhs – ₹ 10 lakhs = ₹ 15 lakhs

Agricultural Income = 60% of ₹ 15 lakhs = ₹ 9 lakhs Business Income = 40% of ₹ 15 lakhs = ₹ 6 lakhs.

The tax liability of Ms. Avani has to be computed applying the concept of partial integration, since her total income comprises of both agricultural income and non-agricultural income and her agricultural income exceeds ₹ 5,000 p.a. and her non-agricultural income exceeds the basic exemption limit i.e., ₹ 2,50,000 (applicable, in her case).

Accordingly, her tax liability would be computed in the following manner:

Particulars	₹
-------------	---

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Paper 3 - Taxation

Tax on total income of ₹ 15,00,000, being agricultural income and non-agricultural income	2,62,500
Less: Tax on agricultural income and basic exemption limit i.e., ₹ 11,50,000 [₹ 9,00,000 plus ₹ 2,50,000]	1,57,500
	1,05,000
Add: Education cess@2%	2,100
Secondary & higher education cess@1%	1,050
Add: EC & SHEC @ 4% (as per amendment)	4,200
Total Tax liability	1,09,200

Section B

Question 1

Who is an "Assessee"? Explain

Answer 1

As per section 2(7), assessee means a person by whom any tax or any othersum of money is payable under the Income-tax Act, 1961.

In addition, the term includes –

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
 - his income; or
 - the income of any other person in respect of which he is assessable; or
 - the loss sustained by him or by such other person; or
 - the amount of refund due to him or to such other person.
- Every person who is deemed to be an assessee under any provision of the Act;
- Every person who is deemed to be an assessee in default under any provision of the Act.

Question 2

State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year.

Answer 2

The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

- 1) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.

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Paper 3 - Taxation

- 2) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.
- 3) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.
- 4) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.
- 5) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

Question 3

Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine.

Answer 3

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

Question 4

What are the two schools of Hindu law and where are they prevalent? Explain. Also, mention the difference between the two schools of Hindu Law.

Answer 4

The two schools of Hindu law are Dayabaga school, prevalent in West Bengal and Assam, and Mitakshara school, prevalent in rest of India.

Under the Dayabaga school of Hindu Law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF.

Under the Mitakshara school of Hindu Law, one acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living. Thus, every child born in the family acquires a right/share in the family property.

Question 5

What is the difference between an Association of Persons and Body of Individuals?

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Paper 3 - Taxation

(New SM)

Answer 5

In order to constitute an Association of Persons (AOP), persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly.

Body of Individuals denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, co-executors or co-trustees are assessable as a BOI as their title and interest are indivisible.

The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e., entities like company, firm etc. can be the member of AOP but not of BOI.

In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

Question 6

Mr. Sumit, a resident Indian, earns income of ₹ 15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the A.Y.2024-25. What would be his business income, assuming he has no other business?

Answer 6

Since Mr. Sumit is a resident, his global income would be taxable in India. Income of ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia would be his business income since it is from rubber plants grown outside India. 35% income from sale of rubber manufactured from latex obtained from rubber plants grown by him in India would be taxable as business income and balance 65% would be exempt as agricultural income.

Business income = 35% of ₹ 15 lakhs + ₹ 20 lakhs = ₹ 25.25 lakhs

Question 7

Mr. Raja, a resident Indian, earns income of ₹ 10 lakhs from sale of coffee grown and cured in India during the A.Y.2024-25. His friend, Mr. Shyam, a resident Indian, earns income of ₹ 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y.2024-25. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?

Answer 7

In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income.

Business income of Mr. Raja = 25% of ₹ 10 lakhs = ₹ 2.5 lakhs
Business income of Mr. Shyam = 40% of ₹ 20 lakhs = ₹ 8 lakhs

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Paper 3 - Taxation

Question 8

The Jain HUF in Assam comprises of Mr. Suresh Jain, his wife Mrs. Sapna Jain, his son Mr. Sarthak Jain, his daughter-in-law Mrs. Preeti Jain, his daughter Miss Seema Jain and his unmarried brother Mr. Pritam Jain. Which of the members of the HUF are eligible for coparcenary rights?

Answer 8

Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living.

Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property.

Hence, Mr. Suresh Jain and his brother, Mr. Pritam Jain would be the coparceners of the Jain HUF and are eligible for coparcenary rights.

Question 9

Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹ 51,75,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

Answer 9

Computation of tax liability of Mr. Kashyap for the A.Y.2024-25
under default tax regime

(A) Tax payable including surcharge on total income of ₹ 51,75,000

₹ 3,00,000 – ₹ 6,00,000 @5%	₹ 15,000	
₹ 6,00,001 – ₹ 9,00,000 @10%	₹ 30,000	
₹ 9,00,001 – ₹ 12,00,000 @15%	₹ 45,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	₹ 60,000	
₹ 15,00,001 – ₹ 51,75,000 @30%	₹ <u>11,02,500</u>	
Total		₹ 12,52,500
Add: Surcharge @ 10%	₹ <u>1,25,250</u>	₹ 13,77,750

(B) Tax Payable on total income of ₹ 50 lakhs (₹ 1,50,000 plus

₹ 10,50,000)	₹ 12,00,000
(C) Total Income Less ₹ 50 lakhs	₹ 1,75,000
(D) Tax payable on total income of ₹ 50 lakhs plus the	
excess of total income over ₹ 50 lakhs (B +C)	₹ 13,75,000

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Paper 3 - Taxation

(E) Tax payable: lower of (A) and (D)	₹ 13,75,000
Add: Health and education cess @4%	₹ 55,000
Tax liability	₹ 14,30,000
(F) Marginal Relief (A - D)	₹ 2,750

Alternative method -

(A) Tax payable including surcharge on total income of ₹ 51,75,000

₹ 3,00,000 – ₹ 6,00,000 @5%	₹ 15,000
₹ 6,00,001 – ₹ 9,00,000 @10%	₹ 30,000
₹ 9,00,001 – ₹ 12,00,000 @15%	₹ 45,000
₹ 12,00,001 – ₹ 15,00,000 @20%	₹ 60,000
₹ 15,00,001 – ₹ 51,75,000 @30%	₹ 11,02,500
Total	₹ 12,52,500
Add: Surcharge@10%	₹ 1,25,250
	₹ 13,77,750

(B) Tax Payable on total income of ₹ 50 lakhs (₹ 1,50,000 plus ₹ 10,50,000)	₹ 12,00,000
(C) Excess tax payable (A)-(B)	₹ 1,77,750
(D) Marginal Relief (₹ 1,77,750 – ₹ 1,75,000, being the amount of income in excess of ₹ 50,00,000)	₹ 2,750
(E) Tax payable (A)-(D)	₹ 13,75,000
Add: Health and education cess @4%	₹ 55,000
Tax liability	₹ 14,30,000

Question 10

Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable under section 112 of ₹ 55,00,000, short term capital gain taxable under section 111A of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for A.Y.2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Answer 10

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Paper 3 - Taxation

Computation of tax liability of Mr. Agarwal for the A.Y.2024-25 under default tax regim

Particulars		₹
Tax on total income of ₹ 6,50,00,000		
Tax@20% of ₹ 55,00,000		11,00,000
Tax@15% of ₹ 65,00,000		9,75,000
Tax on other income of ₹ 5,30,00,000		
₹ 3,00,000 – ₹ 6,00,000 @5%	15,000	
₹ 6,00,000 – ₹ 9,00,000 @10%	30,000	
₹ 9,00,000 – ₹ 12,00,000 @15%	45,000	
₹ 12,00,000 – ₹ 15,00,000 @20%	60,000	
₹ 15,00,000 – ₹ 5,30,00,000 @30%	1,54,50,000	1,56,00,000
		1,76,75,000
Add: Surcharge @15% on ₹ 20,75,000	3,11,250	
@25% on ₹ 1,56,00,000	39,00,000	42,11,250
		2,18,86,250
Add: Health and education cess @4%		8,75,450
Tax Liability		2,27,61,700

Particulars		₹
Tax on total income of ₹ 6,50,00,000		
Tax@20% of ₹ 55,00,000		11,00,000
Tax@15% of ₹ 65,00,000		9,75,000
Tax on other income of ₹ 5,30,00,000		
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 5,30,00,000 @30%	1,56,00,000	1,57,12,500
Add: Surcharge @15% on ₹ 20,75,000		1,77,87,500
@37% on ₹ 1,57,12,500	3,11,250	
	58,13,625	61,24,875
		2,39,12,375
Add: Health and education cess @4%		9,56,495
Tax Liability		2,48,68,870

Computation of tax liability of Mr. Agarwal for the A.Y.2024-25 under normal provisions of the Act

Question 11

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Paper 3 - Taxation

Mr. Sharma aged 62 years and a resident in India, has a total income of ₹2,30,00,000, comprising long term capital gain taxable under section 112 of ₹ 52,00,000, short term capital gain taxable under section 111A of ₹64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Answer 11

Computation of tax liability of Mr. Sharma for the A.Y.2024-25 under default tax regime

Particulars		₹
Tax on total income of ₹ 2,30,00,000		
Tax@20% of ₹ 52,00,000		10,40,000
Tax@15% of ₹ 64,00,000		9,60,000
Tax on other income of ₹ 1,14,00,000		
₹ 3,00,000 – ₹ 6,00,000 @5%	15,000	
₹ 6,00,000 – ₹ 9,00,000 @10%	30,000	
₹ 9,00,000 – ₹ 12,00,000 @15%	45,000	
₹ 12,00,000 – ₹ 15,00,000 @20%	60,000	
₹ 15,00,000 – ₹ 1,14,00,000 @30%	29,70,000	31,20,000
		0
		51,20,000
		0
Add: Surcharge @15%		7,68,000
		58,88,000
		0
Add: Health and education cess @4%		235,520
Tax Liability		61,23,520
		0

Computation of tax liability of Mr. Sharma for the A.Y.2024-25 under normal provisions of the Act

Particulars		₹
Tax on total income of ₹ 2,30,00,000		
Tax@20% of ₹ 52,00,000		10,40,000
Tax@15% of ₹ 64,00,000		9,60,000
Tax on other income of ₹ 1,14,00,000		
₹ 3,00,000 – ₹ 5,00,000 @5%	10,000	
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 1,14,00,000 @30%	31,20,000	32,30,000
		52,30,000
Add: Surcharge @15%		7,84,500

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Paper 3 - Taxation

	60,14,500
Add: Health and education cess @4%	2,40,580
Tax Liability	62,55,080

Question ILLUSTRATION 12

Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lakhs, and the cost of cultivation of such sugarcane is ₹ 5 lakhs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lakhs and the market value of the same is ₹ 22 lakhs. After incurring ₹ 1.5 lakhs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lakhs. Compute B's business income and agricultural income.

Answer 12

Computation of Business Income and Agriculture Income of Mr. B

Particulars	Business Income	Agricultural Income	
	(₹)	(₹)	(₹)
Sale of Sugar			
Business income			
Sale Proceeds of sugar	25,00,000		
Less: Market value of sugar-cane (70%)	22,00,000		
Less: Manufacturing exp.	1,50,000		
	1,50,000	22,00,000	
Agricultural income			
Market value of sugarcane (70%)		14,00,000	

Paper 3 - Taxation

Less: Cost of cultivation			
			8,00,000
Sale of sugarcane			
Agricultural Income			
Sale proceeds of sugarcane(30%)		10,00,000	
Less: Cost of cultivation		5,00,000	
			5,00,000
			13,00,000

Question ILLUSTRATION 13

Mr. C manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 30 lakhs. The cost of growing rubber plants is ₹ 10 lakhs and that of manufacturing latex is ₹ 8 lakhs. Compute his total income.

Answer 13

The total income of Mr. C comprises of agricultural income and business income.

Total profits from the sale of latex= ₹ 30 lakhs – ₹ 10 lakhs – ₹ 8 lakhs= ₹ 12 lakhs.

Agricultural income = 65% of ₹ 12 lakhs = ₹ 7.8 lakhs
Business income = 35% of ₹ 12 lakhs = ₹ 4.2 lakhs

Question ILLUSTRATION 14

Mr. X has a total income of ₹ 16,00,000 for P.Y.2023-24, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2024- 25 under the default tax regime under section 115BAC.

Answer 14

Computation of Tax liability of Mr. X for A.Y. 2024-25

Tax liability:

First ₹ 3,00,000	- Nil		
Next ₹ 3,00,001 – ₹ 6,00,000	- @5% of ₹ 3,00,000	=	₹ 15,000
Next ₹ 6,00,001 – ₹ 9,00,000	- @10% of ₹ 3,00,000	=	₹ 30,000
Next ₹ 9,00,001 – ₹ 12,00,000	- @15% of ₹ 3,00,000	=	₹ 45,000
Next ₹ 12,00,001 – ₹ 15,00,000	- @20% of ₹ 3,00,000	=	₹ 60,000
Balance i.e., ₹ 16,00,000 minus ₹ 15,00,000	- @30% of ₹ 1,00,000	=	₹ 30,000
		=	₹ ,80,000

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Paper 3 - Taxation

Add: Health and Education cess@4%		=	7,200
		=	₹1,87,200

Question ILLUSTRATION 15

Mr. X has a total income of ₹ 16,00,000 for P.Y.2023-24, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2024- 25 assuming his age is –

- 45 years
- 63 years
- 82 years

Assume that Mr. X has exercised the option to shift out/ opt out of the default tax regime.

Answer 15

Computation of Tax liability of Mr. X (aged 45 years)

Tax liability:			
First ₹ 2,50,000	- Nil		
Next ₹ 2,50,001 – ₹ 5,00,000	- @5% of ₹ 2,50,000	=	₹ 12,500
Next ₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	=	₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000	- @30% of ₹ 6,00,000	=	₹ 1,80,000
		=	₹ 2,92,500
Add: Health and Education cess@4%		=	₹ 11,700
		=	₹3,04,200

Computation of Tax liability of Mr. X (aged 63 years)

Tax liability:			
First ₹ 3,00,000	- Nil	=	
Next ₹ 3,00,001 – ₹ 5,00,000	- @5% of ₹ 2,00,000	=	₹ 10,000
Next ₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	=	₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000	- @30% of ₹ 6,00,000	=	₹ 1,80,000
		=	₹ 2,90,000
Add: Health and Education cess@4%		=	₹ 11,600
		=	₹3,01,600

Computation of Tax liability of Mr. X (aged 82 years)

Tax liability:			
First ₹ 5,00,000	- Nil	=	
Next ₹ 5,00,001 – ₹ 10,00,000	- @ 20% of ₹ 5,00,000	=	₹ 1,00,000
Balance i.e., ₹ 16,00,000 minus ₹ 10,00,000	- @ 30% of ₹ 6,00,000	=	₹ 1,80,000

Paper 3 - Taxation

		=	₹2,80,000
Add: Health and Education cess@4%		=	₹ 11,200
		=	₹2,91,200

Question ILLUSTRATION 16

Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.

Answer 16

Computation of tax liability of Mr. A for the A.Y.2024-25

A	Income-tax (including surcharge) computed on total income of	₹ 51,00,000
	₹ 2,50,000 – ₹ 5,00,000 @5%	₹ 12,500
	₹ 5,00,001 – ₹ 10,00,000 @20%	₹ 1,00,000
	₹ 10,00,001 – ₹ 51,00,000 @30%	₹ 12,30,000
	Total	₹ 13,42,500
	Add: Surcharge @ 10%	₹ 1,34,250
		₹ 14,76,750
B	Income-tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000)	₹13,12,500
C	Total Income Less ₹ 50 lakhs	₹ 1,00,000
D	Income-tax computed on total income of ₹ 50 lakhs plus the excess of total income over ₹ 50 lakhs (B +C)	₹ 14,12,500
E	Tax liability: lower of (A) and (D)	₹ 14,12,500
	Add: Health and education cess @4%	₹ 56,500
	Tax liability (including cess)	₹ 14,69,000
F	Marginal Relief (A – D)	₹ 64,250

Alternative method -

A	Income-tax (including surcharge) computed on total income of ₹ 51,00,000	
	₹ 2,50,000 – ₹ 5,00,000@5%	₹ 12,500
	₹ 5,00,001 – ₹ 10,00,000@20%	₹ 1,00,000
	₹ 10,00,001 – ₹ 51,00,000@30%	₹12,30,000
	Total	₹13,42,500
	Add: Surcharge@10%	₹ 1,34,250
		₹ 14,76,750

Paper 3 - Taxation

B	Income-tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000)	₹	13,12,500
C	Excess tax payable (A)-(B)	₹	1,64,250
D	Marginal Relief (₹ 1,64,250 – ₹ 1,00,000, being the amount of income in excess of ₹ 50,00,000)	₹	64,250
E	Tax liability (A)-(D)	₹	14,12,500
	Add: Health and education cess @4%	₹	56,500
	Tax liability (including cess)	₹	14,69,000

Question ILLUSTRATION 17

Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

Answer 17

Computation of tax liability of Mr. B for the A.Y. 2024-25

A	Income-tax (including surcharge) computed on total income of	₹1,01,00,000
	₹ 3,00,000 – ₹ 6,00,000@5%	₹15,000
	₹ 6,00,001 – ₹ 9,00,000@10%	₹30,000
	₹ 9,00,001 – ₹ 12,00,000@15%	₹ 45,000
	₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000
	₹ 15,00,001 – ₹1,01,00,000@30%	₹25,80,000
	Total	₹27,30,000
	Add: Surcharge@15%	₹ 4,09,500
	Tax liability without marginal relief	₹ 31,39,500
B	Income-tax computed on total income of ₹ 1 crore (₹ 1,50,000 plus ₹ 25,50,000)	₹ 27,00,000
	Add: Surcharge@10%	₹ 2,70,000
		₹ 29,70,000
C	Total Income Less ₹ 1 crore	₹ 1,00,000
D	Income-tax computed on total income of ₹ 1 crore plus the excess of total income over ₹ 1 crore (B +C)	₹ 30,70,000
E	Tax liability: lower of (A) & (D)	₹ 30,70,000

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	Add: Health and education cess @4%	₹ 1,22,800
	Tax liability (including cess)	₹ 31,92,800
F	Marginal relief (A-D)	₹ 69,500

Alternative method:

A	Income-tax (including surcharge) computed on total income of		₹1,01,00,000
	₹ 3,00,000 – ₹ 6,00,000@5%	₹ 15,000	
	₹ 6,00,001 – ₹ 9,00,000@10%	₹ 30,000	
	₹ 9,00,001 – ₹ 12,00,000@15%	₹ 45,000	
	₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000	
	₹ 15,00,001 – ₹ 1,01,00,000@30%	₹ 25,80,000	
	Total	₹ 27,30,000	
	Add: Surcharge @ 15%	₹ 4,09,500	₹ 31,39,500
B	Income-tax computed on total income of ₹ 1 crore [(₹ 1,50,000 plus ₹ 25,50,000) plus surcharge@10%]		₹ 29,70,000
C	Excess tax payable (A)-(B)		₹ 1,69,500
D	Marginal Relief (₹ 1,69,500 – ₹ 1,00,000, being the amount of income in excess of ₹ 1,00,00,000)		₹ 69,500
E	Tax liability (A) - (D)		₹ 30,70,000
	Add: Health and education cess @4%		₹ 1,22,800
	Tax liability (including cess)		₹ 31,92,800

Question ILLUSTRATION 18

Compute the tax liability of Mr. C (aged 58), having total income of ₹ 2,01,00,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC.

Answer 18

Computation of tax liability of Mr. C for the A.Y. 2024-25

Income-tax (including surcharge)		
e)		
Computed on total income of ₹2,01,00,000		

Paper 3 - Taxation

₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 2,01,00,000@30%	<u>₹57,30,000</u>	
Total	₹ 58,42,500	
Add: Surcharge @ 25%	<u>₹ 14,60,625</u>	₹ 73,03,125
Income-tax computed on total income of ₹ 2 crore (₹ 12,500 plus ₹ 1,00,000 plus ₹57,00,000)		₹ 58,12,500
Add: Surcharge@15%		₹8,71,875
		₹66,84,375
Total Income Less ₹ 2 crore		₹ 1,00,000
Income-tax computed on total income of ₹ 2 crore plus the excess of total income over ₹ 2 crore (B + C)		₹ 67,84,375
Tax liability (A) or (D), whichever is lower		₹ 67,84,375
Add: Health and education cess @4%		₹ 2,71,375
Tax liability (including cess)		<u>₹ 70,55,750</u>
Marginal relief (A-D)		₹ 5,18,750

Alternative method

Income tax (including surcharge) Computed on total income of ₹2,01,00,000		
₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000	
₹ 10,00,001 – ₹2,01,00,000@30%	<u>₹57,30,000</u>	
Total	₹58,42,500	
Add: Surcharge@25%	<u>₹14,60,625</u>	₹73,03,125
Income-tax computed on total income of ₹ 2 crore [(₹ 12,500		

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plus ₹ 1,00,000 plus ₹ 57,00,000) plus surcharge@15%]		<u>₹66,84,375</u>
Excess tax payable (A)-(B)		₹ 6,18,750
Marginal Relief (₹ 6,18,750 – ₹ 1,00,000, being the amount of income in excess of ₹ 2,00,00,000)		<u>₹ 5,18,750</u>
Tax liability (A) – (D)		₹67,84,375
Add: Health and education cess@4%		<u>₹2,71,375</u>
Tax liability (including cess)		<u>₹ 70,55,750</u>

Question ILLUSTRATION 19

Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹ 5,01,00,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

Answer 19

Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2024-25

Income-tax (including surcharge) computed on total income of	₹	5,01,00,000
₹ 3,00,000 – ₹ 6,00,000@5%	₹ 15,000	
₹ 6,00,001 – ₹ 9,00,000@10%	₹ 30,000	
₹ 9,00,001 – ₹ 12,00,000@15%	₹ 45,000	
₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000	
₹ 15,00,001 – ₹ 5,01,00,000@30%	<u>₹1,45,80,000</u>	
Total	₹1,47,30,000	
Add: Surcharge@25%	<u>₹36,82,500</u>	₹ 1,84,12,500
Add: Health and education cess @4%		<u>₹7,36,500</u>
Tax liability		<u>₹ 1,91,49,000</u>

Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2024-25

(A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000

₹ 3,00,000 – ₹ 5,00,000 @ 5%	₹ 10,000
₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000
₹ 10,00,001 – ₹ 5,01,00,000@30%	₹ 1,47,30,000

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Total	₹ 1,48,40,000
Add: Surcharge @ 37%	₹ 54,90,800
	₹ 2,03,30,800

Income-tax computed on total income of	₹ 5 crore	
(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)		₹1,48,10,000
Add: Surcharge@25%		₹37,02,500
		₹1,85,12,500
Total Income Less	₹ 5 crore	₹ 1,00,000
Income-tax computed on total income of ₹5 crore plus the excess of total income over ₹5 crore (B + C)		₹1,86,12,500
Tax liability (A) or (D), whichever is lower		₹ 1,86,12,500
Add: Health and education cess@4%		₹7,44,500
Tax liability (including cess)		₹ 1,93,57,000
Marginal Relief (A - D)		₹ 17,18,300

Alternative method

Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000		
₹ 3,00,000 – ₹ 5,00,000@5%	₹ 10,000	
₹ 5,00,001 – ₹ 10,00,000@20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 5,01,00,000@30%	<u>₹ 1,47,30,000</u>	
Total	₹ 1,48,40,000	
Add: Surcharge @ 37%	<u>₹ 54,90,800</u>	₹ 2,03,30,800
Income-tax computed on total income of ₹ 5 crore [(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)]		

Paper 3 - Taxation

		₹ 1,85,12,500
Excess tax payable (A)-(B)		₹ 18,18,300
Marginal Relief (₹ 18,18,300 – ₹ 1,00,000 being the amount of income in excess ₹ 5,00,00,000)		₹ 17,18,300
Tax liability (A) - (D)		₹ 1,86,12,500
Add: Health and education cess @4%		₹7,44,500
Tax liability (including cess)		₹ 1,93,57,000

It is beneficial for Mr. D to pay tax under default tax regime under section 115BAC, since his tax liability would be lower by ₹ 2,08,000 (₹ 1,93,57,000 – ₹ 1,91,49,000).

Question ILLUSTRATION 20

Mr. Raghav aged 26 years and a resident in India, has a total income of ₹ 6,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2024-25 under default tax regime under section 115BAC.

Answer 20

Computation of tax liability of Mr. Raghav for A.Y. 2024-25

Particulars	₹
Tax on total income of ₹ 6,50,000	
Tax@10%of ₹ 50,000 + ₹ 15,000	20,000
Less: Rebate u/s 87A (Lower of tax payable or ₹ 25,000)	20,000
Tax Liability	Nil

If total income of such individual **exceeds** ₹ **7,00,000** and income-tax payable on such total income exceeds the amount by which the total income is in excess of ₹ 7,00,000, the rebate would be as follows.

Step 1 – Total income (-) ₹ 7 lakhs **(A)**

Step 2 - Compute income-tax liability on total income **(B)** **Step 3** - If **B>A**, rebate under section 87A would be a **B – A**.

The amount of rebate under section 87A shall not exceed the amount of income-tax (as computed before allowing such rebate) on the total income of the assessee.

Question ILLUSTRATION 21

Mr. Pawan aged 35 years and a resident in India, has a total income of ₹ 7,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2024-25 under default tax regime under section 115BAC.

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Answer 21

Computation of tax liability of Mr. Pawan for A.Y. 2024-25

Particulars	₹	
Step 1: Total Income of ₹ 7,15,000 - ₹ 7,00,000	15,000	(A)
Step 2: Tax on total income of ₹ 7,15,000		
Tax@10%of ₹ 1,15,000 + ₹ 15,000	26,500	(B)
Step 3: Since B>A, rebate u/s 87A would be B-A		
[₹ 26,500 - ₹ 15,000]	11,500	
	15,000	
Add: HEC@4%	600	
Tax Liability	15,600	

Rebate to a resident individual paying tax under optional tax regime (normal provisions of the Act)

If total income of such individual **does not exceed ₹ 5,00,000**, the rebate shall be equal to the amount of income-tax payable on his total income for any assessment year or an amount of ₹ **12,500**, whichever is less.

The amount of rebate under section 87A shall not exceed the amount of income-tax (as computed before allowing such rebate) on the total income of the assessee with which he is chargeable for any assessment year.

Question ILLUSTRATION 22

Mr. Piyush, aged 35 years and a resident in India, has a total income of ₹ 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2024-25 if he exercises the option to shift out of the default tax regime.

Answer 22

Computation of tax liability of Mr. Piyush for A.Y. 2024-25

Particulars	₹
Tax on total income of ₹ 4,15,000	
Tax@5%of ₹ 1,65,000	8,250
Less: Rebate u/s 87A (Lower of tax payable or ₹ 12,500)	8,250
Tax Liability	Nil

Question ILLUSTRATION 23

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2023-24.

- | | |
|--|--------------|
| i. Income from salary (computed) | - ₹ 4,80,000 |
| ii. Income from house property (computed) | - ₹ 2,50,000 |
| iii. Agricultural income from a land in Jaipur | - ₹ 4,80,000 |

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iv. Expenses incurred for earning agricultural income - ₹ 1,70,000

Compute his tax liability for A.Y. 2024-25 assuming his age is -

(a) 45 years

(b) 70 years

Answer 23**(A) Computation of tax liability (age 45 years)**

Computation of total income of Mr. X for the A.Y.

2024-25 under default tax regime under section 115BAC

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000. His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		4,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 - ₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	_____ -
Gross Total Income		7,30,000
Less: Deductions under Chapter VI-A		_____ -
Total Income		<u>7,30,000</u>

Step 1: ₹ 7,30,000 + ₹ 3,10,000 = ₹ 10,40,000 Tax on ₹ 10,40,000 = ₹ 66,000
(i.e., 5% of ₹ 3,00,000 plus 10% of ₹ 3,00,000 plus 15% of ₹ 1,40,000)

Step 2: ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000
Tax on ₹ 6,10,000 = ₹ 16,000
(i.e. 5% of ₹ 3,00,000 plus 10% of ₹ 10,000)

Step 3: ₹ 66,000 - ₹ 16,000 = ₹ 50,000

Step 4 & 5: Total tax payable = ₹ 50,000
= ₹ 50,000 + 4% of ₹ 50,000 = ₹ 52,000.

Computation of total income of Mr. X for the A.Y. 2024-25 under normal provisions of the Act

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

3. Net agricultural income exceeds ₹ 5,000 p.a., and
4. Non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000. His

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Particulars	₹	₹	tax
Income from salary		4,80,000	
Income from house property		2,50,000	
Net agricultural income [₹ 4,80,000 – ₹ 1,70,000]	3,10,000	0	
Less: Exempt under section 10(1)	(3,10,000)	-	
Gross Total Income		7,30,000	
Less: Deductions under Chapter VI-A		0	
Total Income		7,30,000	

liability is computed in the following manner:

Step 1: ₹ 7,30,000 + ₹ 3,10,000 = ₹ 10,40,000

Tax on ₹ 10,40,000 = ₹ 1,24,500

(i.e., 5% of ₹ 2,50,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 40,000)

Step 2: ₹ 3,10,000 + ₹ 2,50,000 = ₹ 5,60,000

Tax on ₹ 5,60,000 = ₹ 24,500

(i.e. 5% of ₹ 2,50,000 plus 20% of ₹ 60,000)

Step 3: ₹ 1,24,500 – ₹ 24,500 = ₹ 1,00,000

Step 4 & 5 : Total tax payable = ₹ 1,00,000

= ₹ 1,00,000 + 4% of ₹ 1,00,000 = ₹ 1,04,000.

(B) Computation of tax liability (age 70 years)**Computation of total income of Mr. X for the A.Y.****2024-25 under default tax regime under section 115BAC**

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years or 70 years i.e., ₹ 52,000.

Computation of total income of Mr. X for the A.Y. 2024-25**under normal provisions of the Act**

His tax liability is computed in the following manner:

Step 1: ₹ 7,30,000 + ₹ 3,10,000 = ₹ 10,40,000

Tax on ₹ 10,40,000 = ₹ 1,22,000

(i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 40,000)

Step 2: ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000

Tax on ₹ 6,10,000 = ₹ 32,000

(i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)

Step 3: ₹ 1,22,000 – ₹ 32,000 = ₹ 90,000

Step 4 & 5: Total tax payable = ₹ 90,000

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$$= ₹ 90,000 + 4\% \text{ of } ₹ 1,00,000 = ₹ 93,600.$$

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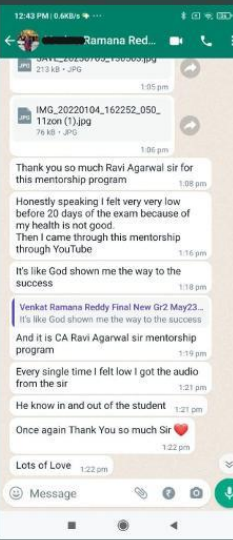
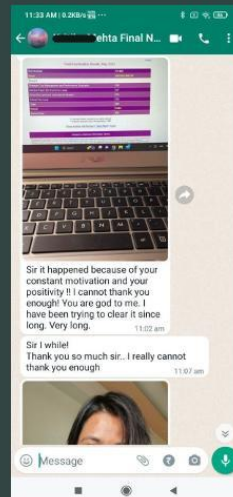
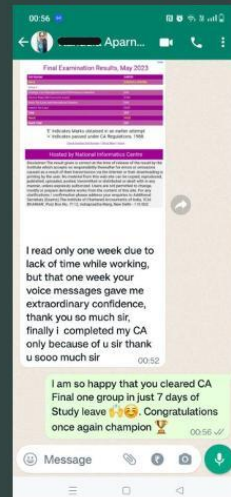
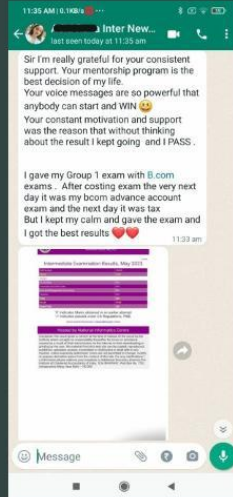
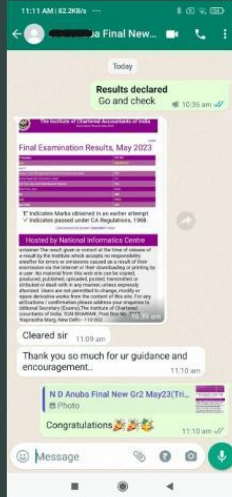
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Paper 3 - Taxation

Chapter 2 RESIDENCE AND SCOPE OF TOTAL INCOME

Attempt wise Distribution

Atte mpts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q5,Q14 ,Q15	Q7	Q8,Q13 ,Q16		Q9,Q11 ,Q12	Q10	Q6	Q4		
RTP			Q3,Q17		Q2,Q18		Q19		Q1			
Q & A												
MTP	Q13	Q14, Q22	Q15, Q21		Q20		Q16, Q19	Q17	Q12, Q23	Q24	Q11, Q25	Q35
PYP	Q36	Q5	Q4	Q33	Q30	Q3,Q6 ,Q31	Q29	Q32	Q2		Q1,Q 34	
RTP	Q10		Q26	Q37	Q18, Q27				Q9	Q8	Q28	Q7

Section A MULTIPLE CHOICE QUESTIONS (MCQS)

1. **Mr. Rajesh, aged 53 years, and his wife, Mrs. Sowmya, aged 50 years, are citizens of Country X. They are living in Country X since birth. They are not liable to tax in Country X. Both of them have keen interest in Indian Culture. Mr. Rajesh's parents and grandparents were born in Country X. Mrs. Sowmya visits India along with Mr. Rajesh for four months every year to be with her parents, who were born in Delhi and have always lived in Delhi. During their stay in India, they organize Cultural Programme in Delhi-NCR. Income of Mr. Rajesh and Mrs. Sowmya from the Indian sources for the P.Y. 2021 -22 is ₹ 18 lakhs and ₹ 16 lakhs, respectively. What is the residential status of Mr. Rajesh and Mrs. Sowmya for A.Y.2022 -23?**
- Both are resident and ordinarily resident in India
 - Both are non-resident in India
 - Mr. Rajesh is resident but not ordinarily resident in India and Mrs. Sowmya is non- resident
 - Mrs. Sowmya is resident but not ordinarily resident in India and Mr. Rajesh is non- resident **(RTP May '22)**

Ans: (d)

2. **Mr. Nishant, a resident but not ordinarily resident for the previous year 2018-19 and resident and ordinarily resident for the previous year 2019-20 has received rent from property in Canada amounting to ₹ 1,00,000 during the P.Y.2018-19. He has deposited the same in a bank in Canada. During the financial year 2019-20, he remitted this amount to India through approved banking channels. Is such rent taxable in India, and if so, how much and in which year?**
- Yes; ₹ 70,000 was taxable in India during the previous year 2018-19.
 - Yes; ₹ 1,00,000 was taxable in India during the previous year 2018-19.
 - Yes; ₹ 70,000 was taxable in India during the previous year 2019-20.
 - No; such rent is not taxable in India either during the previous year 2018-19 or during the previous year 2019-20. **(RTP Nov '20)**

Ans: (d)

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3. **Aashish earns the following income during the P.Y. 2018-19:**

- **Interest on U.K. Development Bonds (1/4th being received in India): ₹4,00,000**
 - **Capital gain on sale of a building in India but received in Holland: ₹ 6,00,000**
- If Aashish is a resident but not ordinarily resident in India, then what will be amount of income chargeable to tax in India for A.Y. 2019-20?**
- (a) ₹ 7,00,000
 (b) ₹ 10,00,000
 (c) ₹ 6,00,000
 (d) ₹ 1,00,000 **(RTP May'19)**

Ans: (a)

4. **Who among the following will qualify as non-resident for the previous year 2021-22?**

- Mr. Bob, an Italian dancer, came on visit to India to explore Indian dance on 15.09.2021 and left on 25.12.2021. For past four years, he visited India for dance competition and stayed in India for 120 days each year.
- Mr. Samrat born and settled in USA, visits India each year for 100 days to meet his parents and grandparents, born in India in 1946, living in Delhi. His Indian income is ₹ 15,20,000.
- Mr. Joseph, an American scientist, left India to his home country for fixed employment there. He stayed in India for study and research in medicines from 01.01.2017 till 01.07.2021.

Choose the correct answer

- (a) Mr. Bob and Mr. Joseph
 (b) Mr. Samrat
 (c) Mr. Bob, Mr. Samrat and Mr. Joseph
 (d) None of the three **(MTP 2 Marks Oct'22)**

Ans: (b)

5. **Which of the following statements is true for companies in the context of the Income-tax Act, 1961?**

- (a) Residential status of a company has an impact on the tax rate of company
 (b) Tax Rate of a company depends upon the place of incorporation
 (c) Residential status of a company helps to classify the company as domestic company and foreign company
 (d) Residential status of company helps classification of closely held company and widely held company. **(MTP 1 Mark, March'19)**

Ans: (b)

6. **Mr. Sushant is a person of Indian origin, residing in Canada. During P.Y. 2021-22, he visited India on several occasions and his period of stay, in total, amounted to 129 days during P.Y. 2021-22 and his period of stay in India during P.Y. 2020-21, P.Y.2019-20, P.Y. 2018-19 and P.Y. 2017-18 was 135 days, 115 days, 95 days and 125 days, respectively. He earned the following incomes during the P.Y. 2021-22:**

Source of Income	Amount (₹)
Income received or deemed to be received in India	2,50,000
Income accruing or arising or which is deemed to accrue or arise in India	3,75,000
Income accruing or arising and received outside India from business controlled from India	5,50,000

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Paper 3 - Taxation

Income accruing or arising and received outside India from business controlled outside India	6,50,000
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What is the residential status of Mr. Sushant for A.Y. 2022-23 and his income liable to tax in India during A.Y. 2022-23

- (a) Non-Resident; ₹6,25,000 is liable to tax in India
- (b) Resident and ordinary resident; ₹18,25,000 is liable to tax in India
- (c) Resident but not ordinarily resident; ₹ 11,75,000 is liable to tax in India
- (d) Non-Resident; ₹11,75,000 is liable to tax in India **(MTP 2 Marks April 22)**

Ans: (a)

7. **Mr. Vikesh, a US citizen, came to India for an assignment from 11.01.2015 to 09.10.2015 and went back to his home country on completion of the same. He thereafter, visited India on 05.07.2017 again for an assignment, which ended on 26.05.2018. What is the latest date by which Mr. Vikesh should depart from India after completing the assignment so as to qualify as non-resident for P.Y. 2018-19? (Assume that he shall not be visiting India again during the year)**

- (a) 29-05-2018
- (b) 30-05-2018
- (c) 29-09-2018
- (d) 28-09-2018

(MTP 2 Marks, Oct'19, Mar 19)

Ans: (a)

8. **Mr. Square, an Indian citizen, currently resides in Dubai. He came to India on a visit and his total stay in India during the F.Y. 2019-20 was 135 days. He has no source of Income in India. Following is his details of stay in India in the preceding previous years:**

Financial Year	Days of Stay in India
2018-19	125
2017-18	106
2016-17	83
2015-16	78
2014-15	37
2013-14	40
2012-13	35

You are his tax consultant. Advise him on his residential status for the P.Y. 2019-20.

- (a) Resident but Not Ordinary Resident (RNOR)
- (b) Resident and Ordinary Resident
- (c) Non-Resident
- (d) Resident but information incomplete to know whether resident but not ordinarily resident or resident and ordinarily resident **(MTP 2 Marks, Oct'20)**

Ans: (c)

9. **Lister Internationals Inc., a non-resident, engaged in business of selling "Good Z" appoints Mr. Risky as an agent in India for selling such product. Mr. Risky works as an agent for several other persons also including nonresidents aiding them in selling their products. The appointment of Mr. Risky will -**

- (a) lead to business connection in India as he is not independent agent
- (b) lead to business connection in India as he is an independent agent
- (c) not lead to business connection in India as he is not independent agent
- (d) not lead to business connection in India as he is an independent agent **(MTP 1 Mark, April'21)**

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Paper 3 - Taxation**Ans: (d)**

10. **Determine residential status of Sandarac (HUF) which carries out its transactions in Malaysia. Its affairs are partly controlled from India. The Karta of HUF, Mr. Sandarac who is from Chennai visits India on 01.06.2019 and leaves to Malaysia on 10.02.2020. He has not visited India for the past 11 years.**
- Non-resident
 - Resident but not ordinarily resident
 - Deemed resident
 - Resident and ordinarily resident **(MTP 2 Marks, Nov'21)**

Ans: (b)

11. **Mr. Mango, an Indian citizen, lives in New York, USA since the last 10 years. He has a penthouse in Mumbai, given on rent @2,00,000 per month. During the year 2020-21, he came to India for 152 days in aggregate. His total stay in India in the immediately preceding 4 previous years is 366 days. You are, being the tax consultant of Mr. Mango, advise him about his residential status for the A.Y. 2021-22.**
- Non-Resident
 - Resident but not ordinary resident
 - Resident and ordinary resident
 - Deemed resident **(MTP 2 Marks, April'21)**

Ans: (b)

12. **Mr. Harry, an Indian citizen, is a marketing consultant who provides consultancy to various countries around the globe. Due to his profession, he is required to travel across various countries throughout the year. His marketing project does not last for more than 40 days and therefore his stay in any country including India usually never exceeds 40 days during a year. His income is Rs. 80 lakhs across the globe which is not liable to tax in any country. During the P.Y. 2020-21, an Indian company provides him a marketing project in India. His stay in India for the project is expected to be only 25 days and his income from that project would be Rs. 30 lakhs. Being a highly qualified professional, he consults you about the tax regime on his income and his residential status in India.**
- He shall be treated as resident but not ordinarily resident and shall be liable to pay tax on Rs. 30 lakhs.
 - He shall be treated as resident and ordinarily resident and shall be liable to pay tax on Rs. 80 lakhs.
 - He shall be treated as non-resident and shall not be liable to any tax.
 - He shall be treated as resident but not ordinarily resident and shall be liable to pay tax on his entire income of Rs. 80 lakhs earned across the globe. **(MTP 2 Marks, March'21)**

Ans: (a)

13. **Mr. Raj, an Indian citizen and a Government employee, left India for the first time on 25.03.2019 on account of his transfer to High Commission in Singapore. During P.Y. 2019-20, he visited India only for ten days on occasion of his sister's marriage. During F.Y. 2019-20, his income composition includes salary, foreign allowances, rent from property in Singapore and interest earned from fixed deposits maintained with SBI. His taxable income for P.Y. 2019-20 will include:**
- All of them, since Mr. Raj is a resident in India, hence his global income will be taxable
 - Only interest earned from fixed deposits maintained in India

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- (c) No income shall be taxable since Mr. Raj is a non-resident in India for P.Y. 2019-20
- (d) Salary and interest income of fixed deposits with SBI **(MTP 2 Marks, May'20, Apr'19)**

Ans: (d)

14. **On 31.08.2018, Mr. Kashyap moved to Japan for employment. His family accompanied him, owing to long term nature of employment. Mrs. Kashyap is also planning to start a fashion boutique in Japan soon, once she gets settled. Both Mr. & Mrs. Kashyap are Indian citizens and have been working in India for more than a decade now. Comment on their residential status for A.Y. 2019-20, assuming they did not visit India after August 2018**

- (a) Mr. & Mrs. Kashyap will qualify to be non-resident
- (b) Mr. Kashyap will qualify to be non-resident and Mrs. Kashyap will be resident but not ordinarily resident
- (c) Mr. Kashyap will qualify to be non-resident and Mrs. Kashyap will be resident and ordinarily resident **(MTP April'19, 1 Marks)**

Ans: (c)

15. **Which of the following incomes is not deemed to accrue or arise in India under section 9(1)(i) of the Income-tax Act, 1961?**

- (a) Income from any business connection in India
- (b) Income through or from any property in India
- (c) Income arising from transfer of a capital asset situated in India
- (d) Income relating to operations which are confined to purchase of goods in India for the purpose of export **(MTP 1 Mark, April'19)**

Ans: (d)

16. **Mr. Ramesh, a citizen of India, is employed in the Indian embassy in the Australia. He is a non-resident for A.Y. 2020-21. He received salary and allowances in the Australia from the Government of India for the year ended 31.03.2020 for services rendered by him in the Australia. In addition, he was allowed perquisites by the Government. Which of the following statements are correct?**

- (a) Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ramesh, since he is non-resident.
- (b) Salary, allowances and perquisites received outside India by Mr. Ramesh are taxable in India since they are deemed to accrue or arise in India.
- (c) Salary received by Mr. Ramesh is taxable in India but allowances and perquisites are exempt.
- (d) Salary received by Mr. Ramesh is exempt in India but allowances and perquisites are taxable. **(MTP 2 Marks, May'20)**

Ans: (c)

17. **Mr. Sumit is an Indian citizen and a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Kochi on 25th April, 2018. From the following details for the P.Y. 2018-19, determine the residential status of Mr. Sumit for A.Y. 2019-20, assuming that his stay in India in the last 4 previous years preceding P.Y. 2018-19 is 365 days and last seven previous years preceding P.Y. 2018-19 is 730 days:**

Date entered in the Continuous Discharge Certificate in respect of joining the ship by Mr. Sumit: 25th April, 2018 Date entered in the Continuous Discharge Certificate in respect of signing off the ship by Mr. Sumit: 24th October, 2018 Mr. Sumit has been filing his income tax return in India as a Resident for previous 2 years. What is his residential status for A.Y. 2019-20:

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- (a) Resident and ordinarily resident
- (b) Resident but not-ordinarily resident
- (c) Non-resident
- (d) Non-resident till 24.10.2018 and resident till 31.03.2019 **(RTP May'19, MTP 2 Marks Sep '23)**

Ans: (a)

18. **Mr. Suhaan (aged 35 years), a non-resident earned dividend income of ₹ 12,50,000 from an Indian Company which is credited directly to its bank account in France and ₹ 15,000 as interest in Saving A/c from State Bank of India during the previous year 2018- 19. Assuming that he has no other income, what will be amount of income chargeable to tax in his hands in India for A.Y. 2019-20?**

- (a) ₹ 2,55,000
- (b) ₹ 2,65,000
- (c) ₹ 15,000
- (d) ₹ 5,000 **(RTP May '20)**

Ans: (d)

19. **Mr. Tejas, an Indian Citizen, left India permanently with his wife and two children, for extending his retail trade business of toys in Canada in the year 2015. From Canada, he is managing his retail business of toys in India. For the purpose his Indian business, he visits India every year from 1st September to 31st January. His business income is ₹ 23.50 lakhs and ₹ 18 lakhs from retail trade business in Canada and in India, respectively for the F.Y. 2020-21. He has no other income during the P.Y. 2020-21. Determine his residential status and income taxable in his hands for the A.Y. 2021-22.**

- (a) Resident and ordinarily resident in India and income of ₹ 18 lakhs and ₹ 23.50 lakhs would be taxable.
- (b) Non-Resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.
- (c) Resident but not ordinarily Resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.
- (d) Deemed resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.

(RTP May '21, MTP 2 Marks Oct '23)**Ans: (c)****Question & Answers****Question 1**

Mr. Prashant (aged 35 years) is an Australian citizen who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the F.Y. 2022-23, he visited India for a total period of 200 days. The purpose of his visit was to meet his family members who are settled in India and also for managing his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During the P.Y. 2022-23, he has the following incomes:

- (A) Income from business in Australia controlled form Australia - ₹ 20,00,000**
- (B) Income from business in Sri Lanka controlled form Chennai - ₹ 16,00,000**
- (C) Short-term capital gains on sale of shares of an Indian company received in Australia - ₹ 50,000. The shares were sold online from Australia.**
- (D) Income from agricultural land in Australia, received there and then brought to India - ₹ 2,00,000**

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Paper 3 - Taxation

Find out the residential status of Mr. Prashant and compute his total income for Assessment Year 2023-24. (PYP 4 Marks May '23)

Answer 1

Determination of Residential Status of Mr. Prashant¹

Mr. Prashant is an Australian citizen who comes on a visit to India for 125 days in every financial year since the past 11 years. During the P.Y. 2022-23, he visited India for 200 days. Since he stayed in India for 182 days or more during the P.Y. 2022-23, he would be resident in India for the A.Y. 2023-24.

An individual is said to be "Resident and ordinarily resident [ROR]" in India in any previous year, if he satisfies both the following conditions:

- He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
- His stay in India in the last 7 years preceding the relevant previous year is 730 days or more [Refer Note 1 below for alternate presentation]

First condition

Residential status for P.Y.2021-22 (A.Y.2022-23) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the four immediately preceding PYs.

Residential status for P.Y.2020-21 (A.Y.2021-22) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the four immediately preceding PYs.

Therefore, he satisfies the first condition of being resident in India in at least 2 out of 10 previous years preceding the relevant P.Y.³

Second condition

Stay in India in 7 immediately preceding PYs = 7 x 125 days = 875 days > 730 days

Since both the conditions are satisfied, he is Resident and Ordinarily Resident (ROR).

In case of ROR, global income would be taxable in India. Accordingly, his total income for A.Y. 2023-24 would as follows:

Computation of Total Income of Mr. Prashant for A.Y.2023-24

	Particulars	₹
(i)	Income from business in Australia	20,00,000
(ii)	Income from business in Sri Lanka	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company	50,000
(iv)	Income from agricultural land in Australia [would not be exempt, since it is not from an agricultural land in India]	2,00,000
	Total income	38,50,000

Notes - (1) Alternative manner of determination of whether Mr. Prashant is ROR/RNOR – "An individual is said to be "Resident but not ordinarily resident [RNOR]" in India in any previous year, if he satisfies any one of the following conditions:

- He is a non-resident in at least 9 out of 10 previous years preceding the relevant previous year; or
- His stay in India in the last 7 years preceding the relevant previous year is 729 days or less.
- Mr. Prashant does not satisfy either of the above conditions on account of being resident in more than 1 year out of 10 years and stay in India for 875 days in the 7 years preceding the P.Y.2022-23. Hence, he is a Resident and Ordinarily Resident in the P.Y.2022-23.

Paper 3 - Taxation

- (2) In the absence of information relating to whether Mr. Prashant is a person of Indian origin, the above solution has been worked out assuming that Mr. Prashant is not a person of Indian origin.
- However, alternate assumption that Mr. Prashant is a person of Indian origin is also possible since the purpose of his visit was to meet his family members who are settled in India. Accordingly, if it is assumed that he is a person of Indian origin, then, for determining whether he is resident in P.Y.2020-21 and P.Y.2021-22, information relating to his total income (excluding income from foreign sources) for the said P.Y.s is required for ascertaining whether the condition of 120 days in the relevant P.Y. + 365 days in the 4 immediately preceding P.Ys would be attracted in his case. This information is not given in the question. Accordingly, assumptions would have to be made relating to the applicability of this condition.
- It may be noted that the condition of 120 days in the P.Y. + 365 days in the four immediately preceding PYs for a PIO whose total income (other than income from foreign sources) exceed ₹ 15 lakhs for determination of residential status came into effect only from A.Y.2021-22. Therefore, in the previous years prior to that, he would be non-resident irrespective of his total income since the number of days of his stay < 182 days each year.
- In case if it is assumed that his total income (other than income from foreign sources) for the P.Y.2020-21 and P.Y.2021-22 > ₹ 15 lakhs, he would be ROR since he would be resident in 2 out of 10 years immediately preceding the current P.Y. and he stayed for 730 days or more in 7 previous years immediately preceding current P.Y.. In such case, his total income would be same as determined in the above solution.
- In case if it assumed that he is a PIO whose total income (other than income from foreign sources) for the P.Y.2020-21 and P.Y.2021-22 ≤ ₹ 15 lakhs, he would be non-resident for P.Y.2020-21 and P.Y.2021-22, since his stay in India is for less than 182 days in those years. In such a case, for P.Y.2022-23, he would be RNOR, since he would be non-resident in all the 10 years immediately preceding the current P.Y.
- In such case, the computation of total income for A.Y.2023-24 would be as follows –
- Computation of Total Income of Mr. Prashant for A.Y.2023-24

	Particulars	₹
(i)	Income from business in Australia controlled from Australia (not taxable in case of RNOR, since it accrues and arises outside India)	-
(ii)	Income from business in Sri Lanka (taxable since it is controlled from India)	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company (taxable, irrespective of residential status)	50,000
(iv)	Income from agricultural land in Australia [would not be taxable in case of RNOR since it accrues and arises outside India]	-
Total Income		16,50,000

Question 2

Mrs. Shruti is an Indian citizen, is currently in employment with an overseas company located in UAE. During the previous year 2021-22, she comes to India for 157 days. She is in India for 200 days, 100 days, 76 days and 45 days in the financial years 2017-18, 2018-19, 2019-20 and 2020-21, respectively. Her annual income for the previous year 2021-22 is as follows:

Particulars	Amount (₹)
Income from salary earned and received in UAE	2,00,000
Income earned and received from a house property situated	5,00,000

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Paper 3 - Taxation

in UAE	
Income deemed to be accrued and arise in India	5,00,000
Income from retail business (accrued and received outside India, controlled from India)	10,00,000
Income accrued and arise in India	3,00,000
Life insurance premium paid by cheque in India	1,50,000

Determine the residential status of Mrs. Shruti for the assessment year 2022-23. (Support your Answer with computation) (PYP 4 Marks May'22)

Answer 2

Mrs. Shruti is an Indian citizen in employment in UAE. She comes on a visit to India during the P.Y.2021-22 for 157 days.

Her stay in India in the four immediately preceding previous years is as follows :

P.Y.	No. of days
P.Y.2017-18	200
P.Y.2018-19	100
P.Y.2019-20	76
P.Y.2020-21	45
Total	421

Computation of Total Income of Mrs. Shruti (excluding income from foreign sources)

Particulars	₹
Income from salary earned and received in UAE (income from a foreign source, hence, to be excluded)	-
Income earned and received from a house property situated in UAE (income from a foreign source, hence, to be excluded)	-
Income deemed to accrue or arise in India	5,00,000
Income from retail business (to be included since the business is controlled from India, even though such income accrues and is received outside India)	10,00,000
Income accrued and arising in India	3,00,000
	18,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India) - Assuming other conditions are fulfilled	1,50,000
Total income (excluding income from foreign sources)	16,50,000
Mrs. Shruti, an Indian citizen visiting India in the P.Y.2021-22, would be a resident in India for A.Y.2022-23, if she satisfies either of the following conditions -	

(i)	She is in India for 182 days or more during the P.Y.2021-22 or
(ii)	She is in India for a period of 120 days or more during the P.Y.2021-22 and her stay in India in the four immediately preceding previous years is 365 days or more. [This condition will apply to her since she comes on a visit to India during the previous year 2021-22 and her total income (excluding income from foreign sources) is ₹ 16.50 lakhs, which exceeds the threshold of ₹ 15 lakhs]
This first condition is not satisfied since she is in India only for 157 days during the P.Y.2021-22. The second condition is satisfied, since she has stayed in India for 157 days during the P.Y.2021-22 and 421 days in the four immediately preceding previous years. Since she has become resident in India for A.Y.2022-23 by satisfying this condition, by default, she would be treated as resident but not ordinarily resident.	
Conclusion – Mrs. Shruti's residential status for A.Y.2022-23 is resident but not ordinarily resident.	

Note – The provisions of section 6(1A) deeming an Indian citizen to be a resident but not ordinarily resident, irrespective of the period of her stay in India in the relevant

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Paper 3 - Taxation

previous year, if she is not liable to tax in any other country would not apply to Shruti, since she is a resident as per the provisions of section 6(1).

Question 3

Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion. Mr. Pratham, a non-resident in India, received a sum of ₹ 1,14,000 from Mr. Rakesh, a resident and ordinarily resident in India. The amount was paid to Pratham on account of transfer of right to use the manufacturing process developed by Pratham. The manufacturing process was developed by Mr. Pratham in Singapore and Mr. Rakesh uses such process for his business carried on by him in Dubai (PYP 2 Marks, Jan 21)

Answer 3

Consideration for transfer of right to use the manufacturing process falls within the definition of royalty. Income by way royalty payable by Mr. Rakesh, a resident and ordinarily resident, is not deemed to accrue or arise in India in the hands of Mr. Pratham as per section 9(1)(vi)(b), since royalty is payable in respect of right used for the purposes of a business carried on by Mr. Rakesh outside India i.e., in Dubai.

Question 4

The following are the incomes of Shri Subhash Chandra, a citizen of India, for the previous year 2018-19:

- (i) **Income from business in India ₹ 2,00,000. The business is controlled from London and ₹ 60,000 were remitted to London.**
- (ii) **Profits from business earned in Japan ₹ 70,000 of which ₹ 20,000 were received in India. This business is controlled from India.**
- (iii) **Untaxed income of ₹ 1,30,000 for the year 2016-17 of a business in England which was brought in India on 3rd March, 2019.**
- (iv) **Royalty of ₹ 4,00,000 received from Shri Ramesh, a resident, for technical service provided to run a business outside India.**
- (v) **Agricultural income of ₹ 90,000 in Bhutan.**
- (vi) **Income of ₹ 73,000 from house property in Dubai, which was deposited in bank at Dubai.**

Compute Gross Total Income of Shri Sub hash Chandra for the A.Y. 2019-20, if he is -

- (1) **A Resident and Ordinarily Resident; and**
- (2) **A Resident but Not Ordinarily Resident (PYP 7 Marks, May'19)**

Answer 4

Computation of Gross Total Income of Shri Sub hash Chandra for the A.Y. 2019-20

	Particulars	Resident and Ordinarily Resident [ROR] (₹)	Resident but Not Ordinarily Resident [RNOR] (₹)
(I)	Income from business in India, controlled from London [Taxable both in the hands ROR and RNOR, since income accrues/arises from business in India, irrespective of the fact that business is controlled from London]	2,00,000	2,00,000

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(ii)	Profits earned from business in Japan [Profits from business in Japan is taxable in the hands of ROR, since global income is taxable in the hands of ROR. Moreover, entire profit of ₹ 70,000 would be taxable in the hands of RNOR, even if only ₹ 20,000 is received in India, since the business in Japan is controlled from India]	70,000	70,000
(iii)	Untaxed income for the year 2016-17 of a business in England which was brought in India during the P.Y. 2018-19 [Not taxable either in the hands of ROR or RNOR, since such income is not related to the P.Y. 2018-19.]	Nil	Nil
(iv)	Royalty received from a resident for technical service provided to run a business outside India [Taxable in the hands of ROR, since global income is taxable in the hands of ROR. Not taxable in the hands RNOR, since royalty income is not deemed to accrue or arise in India as such income is paid by a resident for technical services used to run a business outside India.]	4,00,000	Nil
(v)	Agricultural Income in Bhutan ³ [Since agricultural income accrues/arises outside India, it is taxable only in the hands of ROR. No exemption is available in respect of agricultural income earned outside India]	90,000	Nil
(vi)	Income from house property in Dubai, which was deposited in a bank at Dubai		
	Since income accrues/arises outside India and is also		
	received outside India, it is taxable only in the hands of	73,000	
	ROR	21,900	
	Less: Deduction u/s 24@30%	51,100	Nil
	[See Note below for alternative treatment]		
Gross Total Income		8,11,100	2,70,000

Note – In the above solution, income of ₹ 73,000 from house property in Dubai is presumed to be the rent received, since the said amount is stated to be the amount deposited in bank. Accordingly, deduction@30% of the said amount has been provided to compute the “Income from house property”, where Shri Sub hash Chandra is a ROR.

³ Presumed that the same was received in Bhutan However, since the words “Income from house property” appears to indicate that the same is the income computed under that head of income, it is possible to consider the said amount of ₹ 73,000 as income computed under the head “Income from house property” after providing deduction@30% under section 24(a). In such a case, the gross total income of Shri Sub hash Chandra, if he were a ROR, would be ₹ 8,33,000.

Question 5

Following incomes are derived by Mr. Krishna Kumar during the year ended 31-

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Paper 3 - Taxation

3-2018: Pension received from the US Government 3,20,000
Agricultural income from lands in Malaysia 2,70,000
Rent received from let out property in Colombo, Sri Lanka 4,20,000 Discuss
the taxability of the above items where the assessee is (I) Resident, (ii) Non-
resident. (PYP 6 Marks, Nov'18)

Answer 5

Taxability of items in the hands of Mr. Krishna Kumar

	Item of income	Amount ₹	If Mr. Krishna Kumar is resident	If Mr. Krishna Kumar is non-resident
(I)	Pension received from the US Government	3,20,000	Taxable, since global income is taxable in case of a resident.	Not taxable, since the income has accrued and arisen outside India and assuming that the same is also received outside India.
(ii)	Agricultural income from lands in Malaysia	2,70,000	Taxable, since global income is taxable in case of a resident. Only agricultural income from lands in India is exempt and not lands outside India.	Not taxable, since the income has accrued and arisen outside India and assuming that the same is also received outside India.
(iii)	Rent received from let-out property in Colombo, Sri Lanka	4,20,000	Taxable, since global income is taxable in case of a resident. 30% deduction from net annual value is allowed.	Not taxable, since the income has accrued and arisen outside India and assuming that the same is also received outside India.

Question 6

Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for technical services is to be taxed in India irrespective of territorial nexus. Examine the correctness or otherwise of the given statement. (PYP 3 Marks Jan'21)

Answer 6

Income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1) shall be included in the total income of the non-resident, whether or not –

- (i) the non-resident has a residence or place of business or business connection in India; or
- (ii) the non-resident has rendered services in India.

In effect, the income by way of fees for technical services, interest or royalty, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India.

Therefore, the given statement that income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus, is correct.

Question 7

Miss Asha is an Indian citizen. She is a lawyer by profession. She started her consultancy profession in India in 2019 with the name "New way associates". In May 2021, she got married to Mr. Ram, an American citizen. Mr. Ram came to

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Paper 3 - Taxation

India for the first time on 1st May 2020 when he joined an MNC in India. He got a promotion and was transferred to Dubai. He left for Dubai on 1st October, 2021. Mrs. Asha accompanied him to Dubai. She started providing consultancy there. Both of them came to India for 3 months from June to August in 2022 to spend time with Asha's family. Following incomes were earned by Mr. Ram and Mrs. Asha during the P.Y. 2022 -23.

Income of Mr. Ram		₹
1	Salary from company in Dubai (not liable to tax in Dubai)	13,00,000
2	Long term capital gain on sale of shares of an Indian company	2,50,000
3	Income from house property in Delhi (computed)	4,60,000
4	Dividend from shares of an Indian company	65,000

Income of Mrs. Asha		₹
1	Profit from consultancy profession in Dubai which was set up in India (not liable to tax in Dubai)	12,00,000
2	Profit from consultancy profession in India	3,00,000
3	Long term capital gain on sale of shares of British company, credited to her Dubai bank account	60,000
4	Short term capital loss on sale of listed shares of an Indian company	(42,000)

Determine the residential status of Mr. Ram and Mrs. Asha and their total income for the A.Y. 2023-24 ignoring the provisions of section 115BAC. (RTP Nov '23)

Answer 7

Determination of residential status of Mr. Ram

Mr. Ram is an American citizen who comes on a visit to India during the P.Y. 2022-23 for 3 months. He has been in India from 1st May 2020 to 1st October 2021. Since Mr. Ram has been in India for a period of more than 60 days (i.e., 92 days) during the P.Y. 2022-23 and for a period of more than 365 days (i.e., 519 days) during the 4 immediately preceding previous years, he satisfies one of the basic conditions and he is a resident for the A.Y. 2023-24.

Since his period of stay in India during the preceding 7 previous years is less than 730 days (i.e., 519 days), he is a resident but not-ordinarily resident in India during the A.Y. 2023-24.

Since Mr. Ram is a resident but not-ordinarily resident, income which accrues or arises in India, deemed to accrue or arises in India, received in India, deemed to be received in India and income derived from business controlled in or a profession set up in India is chargeable to tax in India in his hands.

Computation of total Income of Mr. Ram for the A.Y. 2023-24

Particulars of income		(₹)
1	Salary from company in Dubai [Not taxable, since it accrues and arises outside India]	-
2	Long term capital gain on sale of shares of an Indian company [Taxable, since it accrues and arises in India]	2,50,000
3	Income from house property in Delhi [Taxable, since it accrues and arises in India]	4,60,000

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4	Dividend from shares of an Indian company [Taxable, since it accrues and arises in India]	65,000
		7,75,000

Determination of residential status of Mrs. Asha

Mrs. Asha is an Indian citizen who comes on a visit to India during the P.Y. 2022 -23 for 3 months i.e., 92 days. Since she does not satisfy any of the basic conditions of staying in India for 182 days or 120 days during the P.Y. 2022-23, she is not a resident in India as per section 6(1).

Mrs. Asha would be a deemed resident under section 6(1A) if her total income other than the income from foreign sources exceeds ₹ 15 lakhs during the P.Y. 2022-23 as she is an Indian citizen and is not liable to tax in Dubai.

Computation of total Income other than the income from foreign sources of Mrs. Asha

Particulars of income		(₹)
1	Profit from consultancy profession in Dubai which was set up in India [Includible]	12,00,000
2	Profit from consultancy profession in India [Includible]	3,00,000
3	Long term capital gain on sale of shares of British company [Not includible, since it is a foreign source income]	-
4	Short term capital loss on sale of listed shares of an Indian company [It accrues and arises in India. However, short term capital loss is not allowed to be set off from business or profession income, hence, not includible]	-
		15,00,000

Since, total income other than the income from foreign sources of Mrs. Asha does not exceed ₹ 15 lakhs, she would not be a deemed resident. Hence, Mrs. Asha is a non-resident during the A.Y. 2023-24.

Since Mrs. Asha is a non-resident, income which accrues or arises in India, deemed to accrue or arises in India, received in India and deemed to be received in India is chargeable to tax in India in her hands.

Particulars of income		(₹)
1	Profit from consultancy profession in Dubai which was set up in India [Not taxable]	-
2	Profit from consultancy profession in India [Taxable, since it accrues and arises in India]	3,00,000
3	Long term capital gain on sale of shares of British company [Not taxable, since it accrues and arises outside India]	-
4	Short term capital loss on sale of listed shares of an Indian company [Since, it accrues and arises in India, it is allowed to be carry forward to A.Y. 2024-25]	-
		3,00,000

Question 8

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Paper 3 - Taxation

Mr. Dhanush, an Indian citizen aged 35 years, worked in ABC Ltd. in Mumbai. He got a job offer from XYZ Inc., USA on 01.06 2020. He left India for the first time on 31.07.2020 and joined XYZ Inc. on 08.08.2020. During the P.Y. 2021-22, Mr. Dhanush visited India from 25.05.2021 to 22.09.2021. He has received the following income for the previous year 2021-22 –

Particulars	₹
Salary from XYZ Inc., USA received in USA	7,00,000
Dividend from Indian companies	5,50,000
Agricultural income from land situated in Punjab	55,000
Rent received/receivable from house property in Lucknow	4,00,000
Profits from a profession in USA, which was set up in India, received there	6,00,000

Determine the residential status of Mr. Dhanush and compute his total income for the A.Y. 2022-23(RTP Nov'22)

Answer 8

As per section 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant previous year in case such person has total income, other than the income from foreign sources, not exceeding ₹ 15 lakhs. However, if such person has total income, other than the income from foreign sources, exceeding ₹ 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant previous year and has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India.

Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India. **In this case, total income, other than the income from foreign sources, of Mr. Dhanush for P.Y. 2021-22 would be**

Particulars	Amount (₹)
Salary from XYZ Inc., USA received in USA (Not included in total income, since it is income from foreign source)	-
Dividend from Indian companies (Included in total income, since deemed to accrue or arise in India)	5,50,000
Agricultural income from land situated in Punjab [Exempt u/s 10(1)]	-
Rent received/receivable from house property in Lucknow (Included in total income, since deemed to accrue or arise in India)	4,00,000
Less: 30% of ₹ 4 lakhs	1,20,000
Profits from a profession in USA, which was set up in India, received there	6,00,000
Total income, other than the income from foreign sources	14,30,000

Since, Mr. Dhanush is an Indian citizen who comes on a visit to India only for 121 days in the P.Y. 2021-22 and his total income, other than income from foreign sources does not exceed ₹ 15 lakhs, he would be non-resident for the A.Y. 2022-23.

A non-resident is chargeable to tax in respect of income received or deemed to receive in India and income which accrues or arises or is deemed to accrue or arise to him in India. Accordingly, his total income would be as follow –

Particulars	Amount (₹)
Salary from XYZ Inc., USA received in USA (Not taxable, since it neither accrues or arises in India nor is it received in India)	-
Dividend from Indian companies (Taxable, since deemed to accrue or	5,50,000

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Paper 3 - Taxation

arise in India)		
Agricultural income from land situated in Punjab [Exempt u/s 10(1)]		-
Rent received/receivable from house property in Lucknow (Taxable, since it is deemed to accrue or arise in India)	4,00,000	
Less: 30% of ₹ 4 lakhs	1,20,000	2,80,000
Profits from a profession in USA, which was set up in India, received there		-
Gross Total Income/ Total income		8,30,000

Question 9

From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2022, compute the total income for the A.Y. 2022-23, if he is

- (a) Resident and ordinarily resident
- (b) Non-resident (RTP May '22)

	Particulars	Amount (₹)
(i)	Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India. The consideration is also received outside India in foreign currency	1,50,000
(ii)	Rent from property in Delhi, let out to a branch of a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India	1,20,000
(iii)	Agricultural income from a land situated in Nepal, received in Nepal	55,000
(iv)	Interest on savings bank deposit in UCO Bank, Delhi	18,000
(v)	Income earned from business in London which is controlled from Delhi (₹ 35,000 is received in India)	60,000
(vi)	Gift received from his daughter on his birthday	55,000
(vii)	Past foreign taxed income brought to India	37,000
(viii)	Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000

Answer 9

Computation of total income of Mr. Ashutosh for the A.Y. 2022-23

Particulars	Resident and ordinarily resident (₹)	Non-resident (₹)
Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India and received outside India	1,50,000	1,50,000
Rent from property in Delhi, received outside India [₹ 1,20,000 – 30% of ₹ 1,20,000 under section 24(a)]	84,000	84,000
Agricultural income from a land situated in Nepal, received in Nepal	55,000	-
Interest on savings bank deposit in UCO Bank, Delhi	18,000	18,000
Income earned from business in London which is controlled from Delhi	60,000	35,000
Gift received from daughter (Not taxable, since daughter is a relative)	-	-
Past foreign taxed income brought to India (Not taxable)	-	-

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Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000	-
Gross Total Income	3,79,000	2,87,000
Less: Deduction under section 80TTB/80TTA		
[Interest on savings bank account subject to a maximum of ₹ 50,000/₹ 10,000]	18,000	10,000
Total Income	3,61,000	2,77,000

Notes -

- In case of a resident and ordinarily resident, global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
 - Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.
 Therefore, agricultural income from a land situated in Nepal, income earned from business in London which is controlled from Delhi, received outside India and fees for technical services from a non-resident for business outside India is not taxable in case of non-resident.
- In case of a senior citizen, being a resident aged 60 years or more, interest upto ₹ 50,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTB while in case of a non-resident, interest upto ₹ 10,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTA.

Question 10

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

- Received ₹ 20 lakhs from a non-resident for use of patent for a business in India.
- Received foreign currency equivalent to ₹ 15 lakhs from a non-resident Indian for use of know-how for a business in Sri Lanka and this amount was received in Korea.
- Received ₹ 7 lakhs from RR Ltd., an Indian company as fees for providing technical services in India.
- Received ₹ 5 lakhs from R & Co., Mumbai, resident in India, for conducting the feasibility study for a new project in Nepal and the payment was made in Nepal.
- Received ₹ 8 lakhs towards interest on moneys borrowed by a non-resident for the purpose of business within India. Amount was received in Korea.

Examine briefly whether the above receipts are chargeable to tax in India. (RTP May'18)

Answer 10

Taxability of certain receipts in the hands of Mr. Kavin, a non-resident, for A.Y. 2018-19

	Taxability	Reason
(a)	Taxable	Amount of ₹ 20 lakhs received from a non-resident is deemed to accrue or arise in India by virtue of section 9(1)(vi)(c), since the patent was used for a business in India. Therefore, the amount is chargeable to tax in India.
(b)	Not Taxable	Foreign currency equivalent to ₹ 15 lakhs received in Korea from a non-resident for use of know-how for a business in Sri Lanka is not deemed to accrue or arise in India as per section 9(1)(vi)(c), since it is in respect of a business carried on outside India. Also, the amount was received outside India. Therefore, the same is not chargeable to tax in India.

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(c)	Taxable	Amount of ₹ 7 lakhs received from RR Ltd., an Indian Company, is deemed to accrue or arise in India by virtue of section 9(1)(vii)(b), since it is for providing technical services in India. Therefore, the same is chargeable to tax in India.
(d)	Not Taxable	Amount of ₹ 5 lakhs received in Nepal from R & Co., a resident, for conducting feasibility study for the new project in Nepal is not deemed to accrue or arise in India as per section 9(1)(vii)(b), since such study was done for a project outside India. The amount was also received outside India. Therefore, the same is not chargeable to tax in India.
(e)	Taxable	Amount of ₹ 8 lakhs received in Korea towards interest on moneys borrowed by a non-resident for the purpose of business within India is deemed to accrue or arise in India by virtue of section 9(v)(c), since money borrowed was used for the purpose of business in India. Therefore, the same is chargeable to tax in India.

Question 11

Determine the residential status of Mrs. Rose and compute her gross total income chargeable to tax for the A.Y. 2023-24 from the following information gathered from her documents:

Mrs. Rose is an Australian, got married to Mr. Ram of India in Australia on 2.01.2022 and came to India for the first time on 18.02.2022. She left for Australia on 15.9.2022. She returned to India again on 23.03.2023.

On 01.04.2022, she had purchased a Flat in Delhi, which was let out to Mr. Sahil on a rent of ₹ 25,000 p.m. from 1.5.2022. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of ₹ 1,85,500 upto 31.03.2023.

While in India, during the previous year 2022-23, she had received a gold chain from her in-laws worth ₹ 1,50,000. (MTP 6 Marks March '23, MTP 7 Marks Oct'21, MTP 7 Marks Oct'19)

Answer 11

Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- He has been in India during the previous year for a total period of 182 days or more, or
- He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Mrs. Rose, an Australian, for A.Y.2023-24 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2023-24 i.e. P.Y.2022-23 and in the preceding four previous years.

Her stay in India during the previous year 2022-23 and in the preceding four years are as under:

P.Y. 2022-23		
01.04.2022 to 15.09.2022	-	168 days
23.03.2023 to 31.03.2023	-	9 days
Total		177 days
Four preceding previous years		
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	42 days
P.Y.2020-21 [1.4.2020 to 31.3.2021]	-	Nil
P.Y.2019-20 [1.4.2019 to 31.3.2020]	-	Nil
P.Y.2018-19 [1.4.2018 to 31.3.2019]	-	Nil

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Total 42 days

The total stay of Mrs. Rose during the previous year in India was less than 182 days and during the four years preceding this year was for 42 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2023-24.

Computation of gross total income of Mrs. Rose for the A.Y. 2023-24

Particulars	₹	₹
Income from house property		
Flat located in Delhi let-out from 01.05.2022 to 31.03.2023 @ ₹ 25,000/- p.m. Gross Annual Value [₹ 25,000 x 11] ²	2,75,000	
Less: Municipal taxes		Nil
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 24		
30% of NAV	82,500	
Interest on loan [fully allowable as deduction, since property is let-out]	1,85,500	2,68,000
Income from Other Sources		7,000
Gold chain worth ₹ 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.		Nil
Gross Total income		7,000

² Actual rent received has been taken as the gross annual the value in absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.

Question 12

Mr. Krishna (aged 58 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in UK on 15th March 2021. His income during the financial year 2021-22 is given hereunder:

Particulars	₹
Rent from a house situated at UK, received in UK. Thereafter, remitted to Indian bank account.	5,25,000
Interest on Post office savings bank account in India	4,500
Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Krishna did not come to India during the financial year 2021-22. Compute his total income for the Assessment year 2022-23. Assume he does not opt for section 115BAC. (MTP 4 Marks April 22)

Answer 12

Mr. Krishna is a non-resident for the A.Y.2022-23, since he was not present in India at any time during the previous year 2021-22 [Section 6(1)].

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

- Income received or deemed to be received in India; and
- Income accruing or arising or income deemed to accrue or arise in India.

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Paper 3 - Taxation

Computation of Total Income of Mr. Krishna for A.Y. 2022-23

Particulars	₹
Salaries	
Salary from Government of India (Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Krishna, a citizen of India, even though he is a non-resident and rendering services outside India)	9,25,000
Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil
Gross Salary	9,25,000
Less: Standard Deduction under section 16(ia) of ₹ 50,000, being lower of gross salary or ₹ 50,000	50,000
	8,75,000
Income from House Property	
Rent from a house situated at UK, received in UK (Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	Nil
Income from Other Sources	
Interest on Post office savings bank account – exempt upto ₹ 3,500	1,000
Gross Total Income	8,76,000
Less: Deduction under section 80TTA	1,000
Total Income	8,75,000

Question 13

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

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

He earned following income during the previous year 2017-18

Dividend from Thailand Company received in Thailand ₹ 30,000

Short term capital gains on sale of shares of an Indian company ₹ 25,000

Interest on savings account with Post office ₹ 13,000

Past foreign untaxed income brought to India during the previous year ₹ 5,000

Cash gift received from non-relative ₹ 20,000

Income from agricultural land in Nepal received there and then brought to India ₹ 18,000

Interest received from a non-resident on moneys borrowed for the purpose of business in Delhi ₹ 1,50,000.

From the above details for the P.Y. 2017-18, compute the total income of Mr. Kunal for A.Y. 2018-19. (MTP 10 Marks, March'18)

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Answer 13

In this case, the voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Port Blair) and having its destination at a port outside India (i.e., the Thailand port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period beginning from 10th July, 2017 and ending on 21st January, 2018, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Kunal, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 196 days [22+31+30+31+30+31+21] have to be excluded from the period of his stay in India. Consequently, Mr. Kunal's period of stay in India during the P.Y. 2017-18 would be 169 days [i.e., 365 days – 196 days]. Since his period of stay in India during the P.Y. 2017-18 is less than 182 days, he is a non-resident for A.Y. 2018-19.

Based on the residential status, the total income of Mr. Kunal would be determined as follows

Computation of total income of Mr. Kunal for the A.Y. 2018-19

S. No.	Particulars	(₹)
(i)	Dividend from Thailand Company received in Thailand (Note 2)	-
(ii)	Short term capital gain on sale of shares of an Indian company	25,000
(iii)	Interest on savings account with Post office (Note 3)	9,500
(iv)	Past foreign untaxed income brought to India during the previous year	-
	[Not taxable, since it does not represent income of the P.Y.2017-18]	
(v)	Gift received from non-relative	-
	[As per section 56(2)(x), cash gifts received from a non-relative would be taxable,	
	if the amount exceeds ₹ 50,000 in aggregate during the previous year]	
(vi)	Income from agricultural land in Nepal received there and then brought to India (Note 2)	-
(vii)	Interest received from a non-resident on moneys borrowed for the purpose of business in Delhi (Note 4)	1,50,000
Gross Total income		1,84,500
Less: Deductions under Chapter VIA		
Section 80TTA		9,500
(In case of an individual, interest upto ₹ 10,000 from savings account with, inter alia, a		
post office is allowable as deduction under section 80TTA)		—
Total Income		1,75,000

Notes:

- Since the residential status of Mr. Kunal is “non-resident” for A.Y. 2018-19 consequent to his number of days of stay in P.Y. 2017-18 being less than 182 days, his period of stay in the earlier previous years become irrelevant.
- As per section 5(2), only the following incomes are chargeable to tax in India, in case of a non-resident:
 - Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.

Therefore, dividend from Thailand Company received in Thailand and Income from agricultural land in Nepal received there and then brought to India by Mr. Kunal, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

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- (3) The interest on Post Office Savings Bank Account, would be exempt under section 10(15) (i), only to the extent of ₹ 3,500 in case of an individual account.
- (4) As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.

Question 14

Mrs. Bhawna and Mrs. Prerna are sisters and they earned the following income during the Financial Year 2017-18. Mrs. Bhawna is settled in Malaysia since 1986 and visits India for a month every year. Mrs. Prerna is settled in Indore since her marriage in 1994. Compute the Gross total income of Mrs. Bhawna and Mrs. Prerna for the assessment year 2018-19:

Sl. No.	Particulars	Mrs. Bhawna (Rs.)	Mrs. Prerna (Rs.)
(i)	Income from Profession in Malaysia, (set up in India) received there	15,000	
(ii)	Profit from business in Delhi, but managed directly from Malaysia	40,000	-
(iii)	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels.	1,20,000	-
(iv)	Dividend from PQR Ltd., an Indian Company	5,000	9,000
(v)	Agricultural income from land in Maharashtra	7,500	4,000
(vi)	Past foreign untaxed income brought to India	5,000	-
(vii)	Fees for technical services rendered in India received in Malaysia	25,000	-
(viii)	Income from a business in Pune (Mrs. Bhawna receives 50% of the income in India)	12,000	15,000

(MTP 10 Marks, Oct'18)

Answer 14

The residential status of Mrs. Bhawna and Mrs. Prerna has to be determined on the basis of the number of days of their stay in India. Since Mrs. Bhawna is settled in Malaysia since 1986, she would be a non-resident for A.Y. 2018-19. Her visit to India for a month every year would not change her residential status. However, Mrs. Prerna would be resident and ordinarily resident for A.Y. 2018-19, since she is settled in India permanently since 1994. Based on their residential status, the gross total income of Mrs. Bhawna and Mrs. Prerna would be determined as follows:

Computation of Gross Total Income of Mrs. Bhawna & Mrs. Prerna for the A.Y. 2018-19

S. No.	Particulars	Mrs. Bhawna (Non-Resident) (Rs.)	Mrs. Prerna (Resident)(Rs.)
(i)	Income from profession in Malaysia (set up in India) received there (See Note below)	-	-
(ii)	Profit from business in Delhi, but managed directly from Malaysia (See Note below)	40,000	-
(iii)	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels (See Note below)	-	-

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(iv)	Dividend from PQR Ltd. an Indian Company [Exempt under section 10(34), both in the hands of non-resident and resident] <i>As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.</i>	5,000	9,000
(v)	Agricultural income from land in Maharashtra [Exempt under section 10(1), both in the hands of non-resident and resident].	-	-
(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 Malaysia (See Note below)	25,000	-
(viii)	Income from a business in Pune (Mrs. Bhawna receives 50% of the income in India) (See Note below)	12,000	15,000
Gross Total income		82,000	24,000

Note:

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 Malaysia and rent from property in Malaysia received in Malaysia by Mrs. Bhawna, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

However, profit from business in Delhi would be taxable in India in the hands of Mrs. Bhawna, even though it is managed directly from Malaysia.

Further, by virtue of section 9(1)(vii), fees for technical services rendered in India would also be taxable in the hands of Mrs. Bhawna, since it is deemed to accrue or arise in India.

The entire income from a business in Pune is taxable in the hands of both Mrs. Bhawna and Mrs. Prerna due to their accrual/deemed accrual in India, even though a part of income from business in Pune is received by Mrs. Bhawna outside India.

Question 15

1. Explain with reasons whether the following transactions attract income-tax in India in the hands of recipients:

- (i) Salary paid to Mr. Dinesh, a citizen of India Rs.20,00,000 by the Central Government for the services rendered in London.
- (ii) Royalty paid to Raja, a non-resident by Ms. Mute, a resident for a business

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Paper 3 - Taxation

carried on in Sri Lanka.

2. Ms. Anjali, a non-resident, residing in London since 1990, came back to India on 19-02-2017 for permanent settlement in India. Explain the residential status of Ms. Anjali for the Assessment Year 2019-20 in accordance with the various provisions of Income-tax Act, 1961. (MTP 7 Marks, March'19)

Answer 15

i. Taxability of certain receipts under the Income-tax Act, 1961

Sl. No.	Taxable/ Not Taxable	Amount liable to tax (Rs.)	Reason
1	2	3	4
(i)	Taxable	20,00,000	Salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India as per section 9(1)(iii). Mr. Dinesh is a citizen of India. Therefore, salary paid by the Central Government to him for services rendered in London would be deemed to accrue or arise in India in his hands.
(ii)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried on outside India would not be taxable in the hands of the non-resident, as the same would not be deemed to accrue or arise in India as per the exception mentioned in section 9(1)(vi)(b). Therefore, royalty paid by Mute, a resident, to Raja, a non-resident, for a business carried on in Sri Lanka would not be deemed to accrue or arise in India. Note - It is assumed that the royalty was not received in India.

ii. Determination of residential status of Ms. Anjali for the A.Y. 2019 -20

Ms. Anjali is a resident since she has stayed in India for 365 days during the P.Y.2018 -19. Therefore, she satisfies the condition of stay in India for a period of 182 days or more in the relevant previous year as per the requirement under section 6(1).
As per section 6(6), an individual is said to be "not ordinarily resident" in India in any previous year, if he has: (a) been a non-resident in India in nine out of ten previous years preceding the relevant previous year; or (b) during the seven previous years immediately preceding the relevant previous year, been in India for a period of, or periods amount in all to, 729 days or less. Ms. Anjali must, therefore, satisfy either of the conditions to qualify as a not-ordinarily resident.
Ms. Anjali was a non-resident in India up to A.Y.2017-18.
She was resident in India only for P.Y. 2017-18 (A.Y.2018-19) out of the ten previous years preceding P.Y. 2018-19 (A.Y.2019-20). This implies that she has been a non- resident in India in nine out of ten previous years preceding P.Y. 2018 -19 (A.Y. 2019-20). Further, she was in India only for a period of 406 days [i.e., 10 days in February, 2017 + 31 days in March 2017 + 365 days during the P.Y.2017-18] in the seven previous years preceding P.Y. 2018-19 (A.Y.2019-20).
Therefore, since Ms. Anjali satisfies both the conditions for "not-ordinarily resident", her residential status for A.Y.2019-20 would be "Resident but not ordinarily resident".

Paper 3 - Taxation

Question 16

Determine the residential status and total income of Mr. Raghu for the assessment year 2021-22 from the information given below.

Mr. Raghu (age 62 years), an American citizen, is employed with a multinational company in Gurugram. Mr. Raghu holds a senior level position as researcher in the company, since 2009. To share his knowledge and finding in research, company gave him an opportunity to travel to other group companies outside India while continuing to be based at the Gurugram office.

The details of his travel outside India for the financial year 2020-21 are as under:

Country	Period of stay
USA	25 August, 2020 to 10 November, 2020
UK	20 November, 2020 to 23 December, 2020
Germany	10 January, 2021 to 24 March, 2021

During the last four years preceding the previous year 2020-21, he was present in India for 380 days. During the last seven previous years preceding the previous year 2020-21, he was present in India for 700 days. During the P.Y. 2020-21, he earned the following incomes:

- (1) Salary Rs. 15,80,000. The entire salary is paid by the Indian company in his Indian bank account.
- (2) Dividend amounting to Rs. 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore.
- (3) Interest on fixed deposit with Punjab National Bank (Delhi) amounting to Rs. 10,500 was credited to his saving account. (MTP 7 Marks, March'21)

Answer 16

Determination of residential status

Mr. Raghu would be a resident in India in P.Y. 2020-21, if he satisfies any one of the following conditions:

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If he satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, he would be a non-resident.

During the P.Y. 2020-21 Mr. Raghu stayed in India for 179 days i.e., 365 days – 186 days [78 days + 34 days + 74 days] and 380 days i.e., more than 365 days during the 4 preceding previous years. He satisfies the second basic condition for being a resident. Hence, he is a resident in India for A.Y.2021-22.

- (a) A person would be “Not ordinarily Resident” in India in any previous year, if such person, inter alia,
- (b) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- (c) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

For the previous year 2020-21, Mr. Raghu would be “Resident but not ordinarily resident” since he stayed for less than 729 days during the 7 previous years immediately preceding P.Y. 2020-21.

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

Particulars	Amount (Rs.)
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(1)	Salary from Indian company received in a bank account in India	15,00,000	
	Less: Standard deduction u/s 16(IA)	50,000	14,50,000
(2)	Dividend of Rs. 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the resident but not ordinarily resident since the income has neither accrued or arisen in India nor has it been received in India.		Nil
(3)	Interest on fixed deposit with PNB credited to his savings bank account is taxable in the hands of Mr. Raghu as Income from other sources, since it has accrued and arisen in India and is also received in India.		10,500
Gross Total Income			14,60,500
Less: Deduction u/s 80TTB			10,500
Total Income			14,50,000

Question 17

Mr. Thomas, a citizen of Japan, comes to India for the first time during the P.Y. 2019-20. During the financial years 2019-20, 2020-21, 2021-22 2022-23 and 2023-24, he was in India for 50 days, 65 days, 95 days, 150 days and 75 days, respectively. Determine his residential status for the A.Y. 2024-25. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2021-22 of the following transactions entered by him.

- (1) **Interest received from Mr. Michel, a non-resident outside India (The borrowed fund is used by Mr. Michel for investing in Indian company's debt fund for earning interest).**
- (2) **He is also engaged in the business of running news agency and earned income of Rs. 5 lakhs from collection of news and views in India for transmission outside India.**

He entered into an agreement with ABC & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Steel manufacturing plant, in India. He charged Rs. 15 lakhs for these services from ABC & Co.

(MTP 7 Marks, Nov'21)

Answer 17

Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident. During the previous year 2023-24, Mr. Thomas was in India for 75 days and during the 4 years preceding the previous year 2023-24, he was in India for 360 days (i.e. 50+ 65+ 95+ 150 days).

The total stay of the Mr. Thomas during the previous year in India was less than 182 days and during the four years preceding this year was for 360 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, he would be treated as non-resident for the Assessment Year 2024-25.

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- (1) Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
- (2) No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, Rs. 10 lakhs are not taxable in India in the hands of Mr. Thomas.
- (3) Rs. 10 lakhs are deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Steel manufacturing plant in India. Hence, the same would be taxable in India in the hands of Mr. Thomas.

Question 18

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2023. From the following details for the P.Y. 2023-24, determine the residential status of Mr. Anand for A.Y. 2024- 25, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2023-24) is 400 days: (RTP Nov '20)

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6 th June, 2023
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9 th December, 2023

Answer 18

In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2023-24 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more.

The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period beginning from 6th June, 2023 and ending on 9th December, 2023, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2023-24 would be 179 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2023-24 is less than 182 days, he is a non-resident for A.Y. 2024-25.

Question 19

Miss Bhanushali, an American National, got married to Mr. Vikas of India in New York on 3rd February, 2020 and came to India for the first time on 14-02-2020. She left for New York on 11-08-2020. She returned to India again on 20-02-2021. She received the following gifts from her relatives and friends during 01 -04-2020 to 31-03-2021 in India:

- From parents of husband Rs. 71,000
- From married sister of husband Rs. 21,000
- From two very close friends of her husband Rs. 1,41,000 and Rs. 1,21,000 Rs. 2,62,000

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- (i) Determine her residential status and compute the total income chargeable to tax for the Assessment Year 2021-22.
- (ii) Will the residential status change if she had returned to India again on 20-01-2021 instead of 20-02-2021? (MTP 7 Marks, April'21)

Answer 19

Determination of residential status and computation of total income of Miss Bhanushali (if she returned to India on 20.2.2021)

Particulars	Rs.
Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:	
(I) He/she has been in India during the previous year for a total period of 182 days or more, or	
(ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.	
If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.	
Therefore, the residential status of Miss Bhanushali, an American National, for A.Y.2021-22 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2021-22 i.e. P.Y.2020-21 and in the preceding four assessment years.	
Her stay in India during the previous year 2020-21 and in the preceding four years are as under:	
P.Y. 2020-21	
01.04.2020 to 11.08.2020 -133 days	
20.02.2021 to 31.03.2021- 40 days	
Total 173 days	
Four preceding previous years	
P.Y.2019-20 [14.2.2020 to 31.3.2020] -47 days	
P.Y.2018-19 -Nil	
P.Y.2017-18 -Nil	
P.Y.2016-17 -Nil	
Total 47 days	
The total stay of Miss Bhanushali during the previous year in India was less than 182 days and during the four years preceding this year was for 47 days.	
Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2021-22.	
Computation of total income of Miss Bhanushali for the A.Y. 2021-22	
Income from other sources	
Gifts received from non-relatives is chargeable to tax as per section 56(2) (x) if the aggregate value of such gifts exceeds Rs. 50,000.	
- Rs. 71,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- Rs. 21,000 received from married sister-in-law is exempt, since sister of husband falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from two friends of her husband Rs. 1,41,000 and Rs. 1,21,000 aggregating to Rs. 2,62,000 is taxable under section 56(2)(x)	

Paper 3 - Taxation

since the aggregate of Rs. 2,62,000 exceeds Rs. 50,000.	2,62,000
Total Income	2,62,000

Determination of residential status of Miss Bhanushali (if she returned to India on 20.1.2021)

Particulars	Rs.
Yes, the <u>Answer</u> would change, if she had returned to India again on 20.1.2021 instead of 20.2.2021.	
In such case, her stay in India during the previous year 2020-21 would be:	
01.04.2020 to 11.08.2020 - 133 days	
20.01.2021 to 31.03.2021 - 71 days	
Total 204 days	
Since she satisfies the condition of stay in India for more than 182 days during the previous year 2020-21, she would become resident in India. She would be a resident but not ordinarily resident in India for A.Y. 2021-22, since her stay in India in the preceding seven years is less than 730 days (it is only 47 days)1.	

Question 20

Simran, a Chartered Accountant, is presently working in a firm in India. She has received an offer for the post of Chief Financial Officer from a company at New York. As per the offer letter, she should join the company at any time between 1st September, 2019 and 31st October, 2019. She approaches you of your advice on the following issues to mitigate her tax liability in India:

- Date by which she should leave India to join the company;**
- Direct credit of part of her salary to her bank account in Delhi maintained jointly with her mother to meet requirement of her family.**
- Period for which she should stay in India when she comes on leave. (MTP 7 Marks, May'20)**

Answer 20

The following category of individuals will be treated as resident in India only if the period of their stay in India during the relevant previous year is 182 days or more: -

- Indian citizens, who leave India in any previous year, inter alia, for purposes of employment outside India, or
 - Indian citizen or person of Indian origin engaged outside India, inter alia, in an employment, who comes on a visit to India in any previous year.
- Since Simran is leaving India for the purpose of employment outside India, she will be treated as resident only if the period of her stay during the previous year amounts to 182 days or more. Therefore, Simran should leave India on or before 28th September, 2019, in which case, her stay in India during the previous year would be less than 182 days and she would become non-resident for the purpose of taxability in India. In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable. The income earned by her in New York would not be chargeable to tax in India for A.Y. 2020-21, if she leaves India on or before 28th September, 2019.
 - If any part of Simian's salary will be credited directly to her bank account in Delhi then, that part of her salary would be considered as income received in India during the previous year under section 5 and would be chargeable to tax under Income-tax Act, 1961, even if she is a non-resident. Therefore, Simran should receive her entire salary in New York and then remit the required amount to her bank account in Delhi in which case, the salary earned by her in New York would not be subject

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to tax in India.

- (c) In case Simran visits India after taking up employment outside India, she would be covered in the second exception provided above and she will be treated as resident only if the period of her stay during the relevant previous year amounts to 182 days or more. Therefore, when Simran comes India on leave, she should stay in India for less than 182 days during the relevant previous year so that her status remains as a non-resident for the relevant previous year. Moreover, she should not visit India again during the current previous year i.e. P.Y. 2019-20.

Question 21

Compute the total income of Mr. Rajesh, aged 45 years, an Indian citizen for A.Y. 2019-20. On 22.09.2018, he left India for the first time to work as an officer of a company in Canada. He earns the following income during the previous year 2018-19:

Sr. No.	Particulars	(Rs.)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	40,000
2.	Dividend from Canadian company received in Canada	20,000
3.	Short term capital gain on sale of shares of an Indian company received in India	90,000
4.	Interest on savings bank deposit in UCO Bank, Delhi	12,000
5.	Income from Profession in Canada (set up in India), out of which Rs.10,000 is received in India	15,000
6.	Agricultural income from a land situated in Gujarat	45,000
7.	Rent received in Canada in respect of house property at Canada	60,000

(MTP 7 Marks, April'19)

Answer 21

Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions -

- He has been in India during the previous year for a total period of 182 days or more, or
- He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

(As per amendment in case of Indian citizen or person of Indian origin, having total income more than Rs. 15,00,000 (other than income from foreign source) then the second basic condition is applicable and instead of 60 days in the previous year, 120 days are considered)

During the previous year 2018-19, Mr. Rajesh, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2019-20.

Computation of total income of Mr. Rajesh for the A.Y. 2019-20

S. No.	Particulars	Non-Resident (Rs.)
1.	Interest on Canada Development Bond (See Note 1)	20,000

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2.	Dividend from Canadian Company received in Canada (See Note 2)	-
3.	Short term capital gain on sale of shares of an Indian company received in India	90,000
4.	Interest on savings bank deposit in UCO Bank, Delhi	12,000
5.	Income from profession in Canada (set up in India) out of which Rs.10,000 is received in India (See Note 1)	10,000
6.	Agricultural income from a land in Gujarat (See Note 3)	-
7.	Income from house property at Canada (See Note 4)	-
	Gross Total income	1,32,000
	<i>Less:</i> Deduction under Chapter VI-A Section 80TTA (See Note 5)	10,000
	Total Income	1,22,000

Notes:

- (1) As per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:
 - (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, only that part of interest income and income from profession which is received in India would be taxable in his hands.
- (2) Dividend received in Canada from a Canadian based company would not be taxable in the hands of Mr. Rajesh since it has neither accrued nor arisen in India nor is it received in India.
- (3) Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
- (4) Rental income from property in Canada would not be taxable, since it is neither accrued or arisen in India nor it is received in India.
- (5) In case of an individual other than senior citizen, interest upto Rs.10,000 from savings account with, inter alia, a bank is allowable as deduction under section 80TTA, irrespective of the residential status.

Question 22

Miss Kaira, an American national, got married to Mr. Ramesh of India in USA on 1.03.2017 and came to India for the first time on 20.03.2017. She left for USA on 20.9.2017. She returned to India again on 27.03.2018. She has earned the following income during the financial year 2017-18.

Sr. No	Particulars	Amount (Rs.)
1.	Dividend from American company, received in America	20,000
2.	Profits from a profession in Delhi, but managed directly from America	50,000
3.	Long term capital gain on sale of shares of an Indian company, received in India	60,000
4.	Interest on savings bank deposit in SBI, Delhi	17,000
5.	Agricultural income from a land situated in Tamilnadu	55,000
6.	Rent (computed) from property in America deposit in a Bank there, later on remitted to India	1,00,000
7.	Cash gift received from a friend on her birthday on 16.8.2017	51,000

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8.	Past foreign untaxed income brought to India	70,000
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Determiner her residential status and compute the total income chargeable to tax for the Assessment Year 2018-19. (MTP 10 Marks, Aug'18)

Answer 22

Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Kaira, an American National, for A.Y.2018-19 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2018-19 i.e. P.Y.2017-18 and in the preceding four assessment years.

Her stay in India during the previous year 2017-18 and in the preceding four years are as under:

P.Y. 2017-18

01.04.2017 to 20.09.2017 - 173 days

27.03.2018 to 31.03.2018 - 5 days

Total 178 days

Four preceding previous years

P.Y.2016-17 [1.4.2016 to 31.3.2017] - 12 days

P.Y.2015-16 [1.4.2015 to 31.3.2016] - Nil

P.Y.2014-15 [1.4.2014 to 31.3.2015] - Nil

P.Y.2013-14 [1.4.2013 to 31.3.2014] - Nil

Total 12 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 12 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2018-19.

Computation of total income of Mrs. Kaira for the A.Y. 2018-19

S. No.	Particulars	(Non-Resident) (Rs.)
1.	Dividend from American company, received in America (Note 1)	-
2.	Profit from profession in Delhi, but managed directly from America (Note 2)	50,000
3.	Long-term capital gain on sale of shares of an Indian company (Note 2)	60,000
4.	Interest on savings account with SBI (Note 2)	17,000
5.	Agricultural income from land in Tamilnadu [Exempt under section 10(1)]	-
6.	Rent (computed) from property in America deposited in a Bank at America, later on remitted to India (Note 1)	-
7.	Cash gift received from a friend on Mrs. Kaira birthday on 16.8.2017 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

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8.	Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y.2017-18].	-
Total Income		1,78,000

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, dividend from American company received in America, rent from property in America by Mrs. Kaira, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.
- (2) Profits from profession in Delhi, long term capital gains and interest on saving account with SBI are taxable in the hands of Mrs. Kaira, since such incomes are deemed to accrue or arise in India during the P.Y. 2017-18.

Question 23

Mr. Sushant furnished the following particulars of his income for the year ended 31.3.2022.

	Particulars	₹
(a)	Income earned from business in Dubai which is controlled from Delhi	80,000
	(₹ 65,000 is received in India)	
(b)	Pension for services rendered in India but received in Dubai (computed)	24,000
(c)	Dividend from an Oil Company, a Dubai based company, received in Dubai	15,000
(d)	Rent from property in Dubai, deposited in a bank in Dubai and later on, remitted to India through approved banking channels	70,000
(e)	Dividend from Sunset Ltd., an Indian company, received in Dubai	78,000
(f)	Interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company	55,000
(g)	Agricultural income from a land in Bhutan, received in India	25,000

Compute his gross total income for the assessment year 2022-23, if he is:

- (i) **Resident and ordinarily resident;**
- (ii) **Resident but not ordinarily resident;**
- (iii) **Non-resident (MTP 7 Marks March 22)**

Answer 23

Computation of gross total income of Mr. Sushant for the A.Y. 2022-23

	Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
		₹	₹	₹
(a)	Income earned from business in Dubai which is controlled from Delhi, out of which ₹ 65,000 is received in India	80,000	80,000	65,000
(b)	Pension for services rendered in India but received in Dubai (computed)	24,000	24,000	24,000
(c)	Dividend received in Dubai from an Oil company, a Dubai based company	15,000	-	-

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(d)	Rent from property in Dubai, deposited in a bank in Dubai	49,000	-	-
(e)	Dividend from Sunset Ltd., an Indian Company	78,000	78,000	78,000
(f)	Interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company	55,000	-	-
(g)	Agricultural income from a land in Bhutan, received in India (Taxable)	25,000	25,000	25,000
Gross Total Income		3,26,000	2,07,000	1,92,000

Notes:

- (a) As per section 5(1), global income is taxable in case of a resident. However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:

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

Further, the income which accrues or arise outside India would be chargeable to tax in case of resident but not ordinarily resident in India, only if such income is derived from a business controlled in India.

Accordingly, the entire income earned from business in Dubai which is controlled from Delhi would be chargeable to tax in the hands of Mr. Sushant if he is a resident in India or resident but not ordinarily resident. However, if he is non-resident then only that part of income which is received in India would be taxable in his hands.

- (b) Agricultural income from a land in Bhutan, received in India is taxable in all cases.
- (c) Pension for services rendered in India but received in Dubai and dividend from Sunset Ltd., an Indian company would be taxable in all cases, since it has accrued or arisen in India.
- (d) Dividend from a Dubai based company, received in Dubai and interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company, would be taxable in the hands of Mr. Sushant, only if he is resident and ordinarily resident in India. If he is a resident but not ordinarily resident or a non-resident, the same would not be taxable in his hands in India since it has neither accrued nor arisen in India nor is it received in India.
- (e) Likewise, rental income from property in Dubai would also be taxable only if he is resident in India. It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been provided and the net income so computed is taken into account for determining the gross total income of a resident and ordinarily resident.

	₹
Rent received (assumed as gross annual value)	70,000
Less: Deduction under section 24 (30% of ₹ 70,000)	21,000
Income from house property	49,000

Question 24

Mr. Manek, a person of Indian origin and citizen of USA, got married to Ms. Anjali, an Indian citizen residing in USA, on 24th January, 2021 and came to India on 25-03-2021. He left for Country X on 10th July, 2021. He returned to India again on 24-02-2022 with his wife to spend some time with his parents-in law for 30 days and thereafter returned to USA. He stayed in India for 400 days during the 4 years preceding the previous year 2021-22.

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He received the following gifts from his relatives and friends of her wife during 01-04-2021 to 31-03-2022 in India:

- From wife's parents	₹ 1,51,000
- From wife's sister	₹ 21,000
- From very close friends of his wife	₹ 16,00,000

Determine his residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the Assessment Year 2022-23. (MTP 6 Marks Sep'22)

Answer 24

Under section 6(1), an individual, being a person of Indian origin and who comes on a visit to India and he is having total income other than income from foreign sources exceeding ₹ 15 lakhs during the previous year, such individual is said to be resident in India, if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year. As per section 6(6), such individual whose stay in India is for 120 days or more but less than 182 days in the P.Y. 2021-22 would be resident but not ordinarily resident.

Mr. Manek is a person of Indian origin who has come on a visit to India during the previous year. Since his total income other than income from foreign sources exceeds ₹ 15,00,000, he would be a resident in India if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year.

His stay in India during the previous year 2021-22 is as under:

P.Y. 2021-22

01.04.2021 to 10.07.2021	-	101 days
24.02.2022 to 25.03.2022	-	30 days
Total		131 days

Since he stays in India is for 131 days during the P.Y. 2021-22 and for 400 days during the 4 years immediately preceding the P.Y. 2021-22, he is resident but not ordinarily resident in India for the P.Y. 2021-22.

In such case, his total income and tax liability would be computed in the following manner:

Computation of total income and tax liability of Mr. Manek for the A.Y. 2022-23

Particulars	₹
Income from other sources	
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds ₹ 50,000.	
- ₹ 1,51,000 received from parents of wife would be exempt, since wife's parents fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- ₹ 21,000 received from married sister-in-law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from close friends of his wife of ₹ 16,00,000 is taxable under section 56(2)(x) since the amount of cash gifts exceeds ₹	16,00,00

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50,000.	0
Total Income	16,00,000
Tax on total income of ₹ 16,00,000	1,80,000
Upto ₹ 2,50,000 ₹ 3,00,000 Nil	
₹ ₹ 3,00,000 – ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	
₹ 6,00,001 – ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	
₹ 9,00,001 – ₹ 12,00,000 [₹ 3,00,000 @ 15%] 45,000	
₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000	
Above ₹ 15,00,000 @30%	
Add: Health and Education cess@4%	7,200
Tax liability	1,87,200

Note – Since his tax liability as per normal provisions is ₹ 3,04,200 [₹ 2,92,500 (₹ 1,12,500 plus 30% on ₹ 6,00,000 income exceeding ₹ 10,00,000) plus ₹ 11,700, being health and education cess @4%], which is higher than the tax liability computed as per concessional tax rates available under section 115BAC, it is beneficial for him to opt for section 115BAC.

Question 25

Mr. Sarthak, an individual and Indian citizen living in Dubai, since year 2005 and never came to India for a single day since then, earned the following incomes during previous year 2022-23:

	Particulars	Amount (in ₹)
(i)	Income accrued and arisen in Dubai but he is not liable to tax in Dubai	20,00,000
(ii)	Income accrued and arisen in India	5,00,000
(iii)	Income deemed to accrue and arise in India	8,00,000
(iv)	Income arising in Dubai from a profession set up in India	10,00,000

- Determine the residential status of Mr. Sarthak and taxable income for the previous year 2022-23 (assuming no other income arise during the previous year).
- What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?
- What would be your answer, if Mr. Sarthak is not an Indian citizen but his parents were born in India? (MTP 6 Marks April '23)

Answer 25

- Mr. Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for the P.Y. 2022 -23 on the basis of number of days of his stay in India as per section 6(1). However, since he is an Indian citizen
 - having total income (excluding income from foreign sources) of ₹ 23 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year; and
 - not liable to tax in Dubai, he would be deemed resident in India for the P.Y. 2022-23 by virtue of section 6(1A). A deemed resident is always a resident but not ordinarily resident in India (RNOR).
 Computation of Total Income for A.Y.2023-24

	Particulars	₹
	rs	

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(i)	Income accrued and arisen in Dubai (not taxable in case of an RNOR)	-
(ii)	Income accrued and arisen in India (taxable)	5,00,000
(iii)	Income deemed to accrue or arise in India (taxable)	8,00,000
(iv)	Income arising in Dubai from a profession set up in India would be taxable in case of RNOR	10,00,000
	Total income	23,00,000

II. If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would not be deemed resident.

Accordingly, he would be non-resident in India for the P.Y. 2022-23 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above i.e., ₹ 5 lakhs + ₹ 8 lakhs).

III. If Mr. Sarthak is not an Indian citizen and his parents were born in India, he would be person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him.

Accordingly, he would be non-resident in India during the P.Y. 2022-23 and his total income would be ₹ 13 lakhs.

Question 26

The residential status of Ms. Nicole Kidman, a foreign national, would be determined in the following manner -

Previous Year	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11
No. of days of stay in India	102	20	46	201	137	102	102	102	102

Ms. Nicole Kidman is said to be resident if she satisfies any one of the following basic conditions:

- Has been in India during the previous year for a total period of 182 days or more (or)**
- Has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days during the previous year.**

Ms. Nicole Kidman's stay in India during the P.Y.2018-19 is less than 182 days. However, her stay in India during the P.Y.2018-19 is 102 days, which exceeds 60 days; and her stay in India during the four previous years prior to P.Y.2018-19 is 404 days [20 + 46 + 201 + 137], which exceeds 365 days. Hence, she is a resident for P.Y.2018-19. Further, Ms. Nicole Kidman would be "Resident but not ordinarily resident" in India in during the previous year 2018-19, if she:

- has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or**
- has during the 7 previous years immediately preceding the relevant previous year been in India for less than 730 days.**

If she does not satisfy both of these conditions, she would be a resident and ordinarily resident.

In the present case, her stay in India in the last seven previous years prior to P.Y.2018-19 is 710 days [20 +46 +201+137 +102 +102 +102], which is less than

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730 days. Therefore, she is resident but not ordinarily resident for the P.Y.2018-19 even if she is resident in the two assessment years i.e., A.Y.2016-17 and A.Y.2015-16 as per the information given in the question. (RTP May 19)

Answer 26

The residential status of Ms. Nicole Kidman, a foreign national, would be determined in the following manner -

Previous Year	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11
No. of days of stay in India	102	20	46	201	137	102	102	102	102

Ms. Nicole Kidman is said to be resident if she satisfies any one of the following basic conditions:

- (i) Has been in India during the previous year for a total period of 182 days or more (or)
- (ii) Has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days during the previous year. Ms. Nicole Kidman's stay in India during the P.Y.2018-19 is less than 182 days. However, her stay in India during the P.Y.2018-19 is 102 days, which exceeds 60 days; and her stay in India during the four previous years prior to P.Y.2018-19 is 404 days [20 + 46 + 201 + 137], which exceeds 365 days. Hence, she is a resident for P.Y.2018-19.

Further, Ms. Nicole Kidman would be "Resident but not ordinarily resident" in India in during the previous year 2018-19, if she:

- (a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- (b) has during the 7 previous years immediately preceding the relevant previous year been in India for less than 730 days. If she does not satisfy both of these conditions, she would be a resident and ordinarily resident.

In the present case, her stay in India in the last seven previous years prior to P.Y.2018-19 is 710 days [20 + 46 + 201 + 137 + 102 + 102 + 102], which is less than 730 days. Therefore, she is resident but not ordinarily resident for the P.Y.2018-19 even if she is resident in the two assessment years i.e., A.Y.2016-17 and A.Y.2015-16 as per the information given in the question.

Question 27

Mr. Rajesh Sharma (aged 62 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 29th May 2018 as stamped in the passport and returned on 27th April 2019. He has been in India for less than 365 days during the 4 years immediately preceding the previous year. Determine his residential status and his total income for the assessment year 2019-20 from the following information:

- (1) **Short term capital gain on the sale of shares of Tilt India Ltd., a listed Indian company, amounting to ₹ 58,000. The sale proceeds were credited to his bank account in Singapore.**
- (2) **Dividend amounting to ₹ 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore. He had borrowed money from Mr. Abhay, a non-resident Indian, for the above-mentioned investment on 2nd April, 2018. Interest on the borrowed money for the previous year 2018-19 amounted to ₹ 5,800.**
- (3) **Interest on fixed deposit with Punjab National Bank, Delhi amounting to ₹ 9,500**

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was credited to his saving bank account. (RTP May '20)

Answer 27

Determination of residential status

An individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident. Mr. Rajesh Sharma, an Indian citizen, has not satisfied either of the basic conditions for being a resident, since he was in India for only 59 days during the previous year 2018 -19. Hence, he is non-resident in India for A.Y.2019-20.

Computation of total income of Mr. Rajesh Sharma for A.Y.2019-20

Particulars		Amount (₹)
(1)	Short-term capital gain on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Rajesh Sharma, since it has accrued and arisen in India even though the sale proceeds were credited to bank account in Singapore.	58,000
(2)	Dividend of ₹ 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the non-resident since the income has neither accrued or arisen in India nor has it been received in India. Since dividend is not taxable in India, interest paid for investment is not allowable as deduction.	Nil
(3)	Interest on fixed deposit with Punjab National Bank, Delhi credited to his savings bank account is taxable in the hands of Mr. Rajesh Sharma as Income from other sources, since it has accrued and arisen in India and is also received in India. He would not be eligible for deduction under section 80TTB, since he is a non-resident.	9,500
Total Income		67,500

Question 28

Mrs. Roma, an Indian Citizen, is a government employee working for the Indian Government. She submits the following information for the previous year ending 31.03.2023:

		₹
1	Salary income received in Malaysia for services rendered there	2,00,000
2	Profit from business carried on in Orissa	80,000
3	Loss from business carried on in Baroda	(20,000)
4	Profit from business carried on in Paris (income is earned and received in Sydney and business is controlled from Paris)	42,000
5	Loss from business carried on in Canada (though profits are not received in India, business is controlled from Dehradun)	(46,000)
6	Unabsorbed depreciation of business in Canada	16,000
7	Profit from Indonesia business (controlled form Delhi) and 60% of profit deposited in a bank in Indonesia and	70,000

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	40% received in India	
8	Rent from house property situated in Canada and received in Canada	1,92,000

Determine the gross total income of Roma for the A.Y. 2023-24 ignoring the provisions of section 115BAC on the assumption that she is:

- (1) **Resident but not ordinarily resident in India**
- (2) **Non-resident in India. (RTP May '23)**

Answer 28

Computation of gross total Income of Mrs. Roma for the A.Y. 2023-24

Particulars of income		Resident but not ordinarily Resident (₹)	Non-Resident (₹)
1	Salary income received in Malaysia for services rendered there (Note 1)	2,00,000	2,00,000
	Less: Standard deduction under section 16(ia)	50,000	50,000
		1,50,000	1,50,000
2	Profit from business carried on in Orissa [Since it accrues or arises in India]	80,000	80,000
3	Loss from business carried on in Baroda [Since it accrues or arises in India]	(20,000)	(20,000)
4	Profit from business carried on in Paris (income is earned and received in Sydney and business is controlled from Paris) [Since it accrues or arises outside India]	Nil	Nil
5	Loss from business carried on in Canada (business is controlled from Dehradun)	(46,000)	Nil
6	Unabsorbed depreciation of business in Canada	(16,000)	Nil
7	Profit from Indonesia business (business is controlled from Delhi)	70,000	28,000
8	Rent from property situated in Canada and received in Canada	Nil	Nil
Gross Total Income		2,18,000	2,38,000

Note 1 - Income from "Salaries" payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Standard deduction under section 16(ia) is allowable, irrespective of residential status.

Note 2 - In case of a non-resident, only income received or deemed to be received in India and income accruing or arising or deemed to accrue or arise in India is chargeable to tax. However, in case of a resident but not ordinarily resident, income derived from a business controlled in or profession set up in India is also taxable even though it accrues or arises outside India.

Therefore, income referred to in S. No. 1, 2 and 3 are taxable in the hands of Mrs. Roma in both cases if she is a resident but not ordinarily resident or if she is a non-resident. Loss from business carried on in Canada, unabsorbed depreciation of business in Canada and Profit from Indonesia business would be fully chargeable to tax in India if she is a resident but not ordinarily resident as it derived from a business controlled in India. However, Profit from Indonesia business is taxable in case of non-resident to the extent of such profits received in India.

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Question 29

Mrs. Rohini, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1996 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for the previous year ended 31.03.2021:

S. No.	Particulars	Amount (in ₹)
1.	Pension received from Russian Government	65,000
2.	Long-term capital gain on sale of land at New Delhi (computed)	3,00,000
3.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed)	60,000
4.	Premium paid to Russian Life Insurance Corporation at Russia	75,000
5.	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Mrs. Rohini and compute her total income and tax liability in India for Assessment Year 2021-22 as per normal provisions. (PYP 6 Marks, July'21)

Answer 29

An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India (and whose total income, other than from foreign sources, does not exceed ₹ 15,00,000) would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year.

Since Mrs. Rohini is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y.2020-21 and her income other than from foreign sources does not exceed ₹ 15,00,000, she is non-resident for the A.Y. 2021-22. A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to her in India. Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Rohini for A.Y. 2021 -22

Particulars		Amt (₹)
Salaries		
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor is it received in India]		Nil
Income from House Property		
Annual Value [Rental Income from house property in New Delhi is taxable, since it is deemed to accrue or arise in India, as it accrues or arises from a property situated in India]	90,000	
Less: Deduction u/s 24(a) @ 30%	27,000	63,000
Capital Gains		
Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]		3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian		60,000

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listed companies]		
Gross Total Income		4,23,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		63,000
- Life insurance premium ² of ₹ 75,000 [Premium paid to Russian Life Insurance Corporation allowable as deduction. However, the same has to be restricted to gross total income excluding LTCG and STCG, as Chapter VI-A deductions are not allowable against such income chargeable to tax u/s 112 and 111A, respectively]		
Total Income		3,60,000
Computation of Tax Liability		
Long-term capital gains taxable @20% u/s 112 [3,00,000 x 20%]		60,000
Short-term capital gains taxable @15% u/s 111A [60,000 x 15%]		9,000
		69,000
Add: Health and Education Cass @4%		2,760
Tax Liability		71,760

¹ Even if her total income exceeds ₹ 15 lakh, still, she would be non-resident since the minimum period of stay required in the current year for being a resident is 120 days. Note - The benefit of adjustment of unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 111A is not available in case of non-resident. Further, rebate u/s 87A is not allowable to a non-resident, even if his income does not exceed ₹ 5 lakh.

Question 30

Mr. Thomas, a non-resident and citizen of Japan entered into following transactions during the previous year ended 31.03.2020. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2020-21 as per Income-tax Act, 1961. (Give brief reasoning)

- (1) **Interest received from Mr. Marshal, a non-resident outside India (The borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest).**
- (2) **Received ₹ 10 lakhs in Japan from a business enterprise in India for granting license for computer software (not hardware specific).**
- (3) **He is also engaged in the business of running news agency and earned income of ₹ 10 lakhs from collection of news and views in India for transmission outside India.**
- (4) **He entered into an agreement with SKK & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Denim Jeans manufacturing plant, in Surat (India). He charged ₹ 10 lakhs for these services from SKK & Co. (PYP 5 Marks, Nov'20)**

Answer 30

1. Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
2. Royalty includes, inter alia, consideration for grant of license for computer software. Hence, the amount of ₹ 10 lakhs payable by a resident (business enterprise in India) for grant of license for computer software would be royalty which is deemed to accrue or arise in India in the hands of Mr. Thomas, a non-resident, since it is for the purpose of business in India. Hence, the royalty is taxable in India.
3. No income shall be deemed to accrue or arise to Mr. Thomas through or from activities

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which are confined to the collection of news and views in India for transmission outside India. Hence, ₹ 10 lakhs are not taxable in India in the hands of Mr. Thomas.

4. ₹ 10 lakhs are deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Denim Jeans manufacturing plant in Surat. Hence, the same would be taxable in India in the hands of Mr. Thomas.

Question 31

Rajesh was employed in Axis Ltd., Mumbai. He received a salary of ₹ 45,000 p.m. from 1.04.2019 to 20.09.2019. He resigned and left for Dubai for the first time on 28.09.2019 and got monthly salary of rupee equivalent of ₹ 90,000 from 1.10.2019 to 31.03.2020. His salary for October to December was credited in his Mumbai bank account directly and the salary for January to March 2020 was credited in his Dubai bank account.

The cost of his air tickets to Dubai costing ₹ 1,50,000 was funded by her sister staying in London. The cost of his initial stay at Dubai costing ₹ 40,000 was funded by one of his friends staying in Delhi. He further received interest of ₹ 10,500 on his fixed deposits and ₹ 7,500 on his savings a/c with his Mumbai bank. He also paid LIC Premiums of ₹ 15,000 for self, ₹ 10,000 for spouse and ₹ 25,000 for dependent mother aged 71 years. Compute taxable income of Mr. Rajesh for the Assessment Year 2020-21. (PYP 7 Marks, Jan'21)

Answer 31

In case of an Indian citizens leaving India for employment during the relevant previous year, the period of their stay during that previous year for being treated as a resident of India must be 182 days or more.

(As per amendment in case of Indian citizen or person of Indian origin, having total income more than Rs. 15,00,000 (other than income from foreign source) then the second basic condition is applicable and instead of 60 days in the previous year, 120 days are considered)

During the previous year 2019-20, Mr. Rajesh, an Indian citizen, was in India for 181 days only (i.e., 30+31+30+31+31+28 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2020-21. A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to him in India. Hence, salary for January to March 2020, which was credited in his Dubai bank account for services rendered in Dubai, would not be taxable in the hands of Mr. Rajesh.

Computation of taxable income of Mr. Rajesh for A.Y. 2020-21

Particulars		Amount (₹)
Salary		
Salary from 1.4.2019 to 20.9.2019 [45,000 x 5 + 45,000 x 20/30]	2,55,000	
Salary from 1.10.2019 to 31.12.2019 [90,000 x 3]	2,70,000	
Gross Salary		5,25,000
Less: Standard deduction u/s 16(IA)		50,000
Net Salary		4,75,000
Income from Other Sources		
Interest on fixed deposits	10,500	
Interest on Savings account	7,500	18,000

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Gross Total Income	4,93,000
Less: Deduction under Chapter VI-A	
- Deduction under section 80C	25,000
LIC premium for self and spouse [LIC premium for mother is not allowed for deduction]	
- Deduction under section 80TTA	7,500
[Interest on savings account with Mumbai bank]	4,60,500
Total Income	

Working Notes –

- Cost of his air tickets to Dubai costing ₹ 1,50,000 funded by his sister is not taxable under section 56(2)(x) in the hands of Mr. Rajesh, since “sister” is a relative.
- Cost of initial stay at Dubai costing ₹ 40,000 funded by his friend is also not taxable under section 56(2)(x), since the amount does not exceed ₹50,000.

Question 32

Examine the tax implications of the following transactions for the assessment year 2021-22: (Give brief reason)

- Government of India has appointed Mr. Rahul as an ambassador in Japan. He received salary of ₹ 7,50,000 and allowances of ₹ 2,40,000 during the previous year 2020-21 for rendering his services in Japan. He is an Indian citizen having status of non-resident in India for the previous year 2020-21.**
- Ms. Juhi, a non-resident in India is engaged in operations which are confined to purchase of goods in India for the purpose of export. She has earned ₹ 2,50,000 during the previous year 2020-21.**
- Mr. Naveen, a non-resident in India, has earned ₹ 3,00,000 as royalty for a patent right made available to Mr. Rakesh who is also a non-resident. Mr. Rakesh has utilized patent rights for development of a product in India and 50% royalty is received in India and 50% outside India.**
- Mr. James, a NRI, borrowed ₹ 10,00,000 on 01.04.2020 from Mr. Akash who is also a non-resident and invested such money in the shares of an Indian Company. Mr. Akash has received interest @ 12% per annum. (PYP 7 Marks Dec '21, MTP 8 Marks Oct '23)**

Answer 32

- As per section 9(1)(iii), salaries (including, inter alia, allowances) payable by the Government to a citizen of India for services rendered outside India shall be deemed to accrue or arise in India.
Thus, salary received from Government by Mr. Rahul, being a non-resident of ₹ 7,50,000 for rendering services in Japan would be taxable in his hands, after allowing standard deduction of ₹ 50,000.
However, any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt u/s 10(7). Hence, ₹ 2,40,000, being the allowance would be exempt.
- In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export. Thus, income of ₹ 2,50,000 arising in the hands of Ms. Juhi would not be taxable in her hands in India, since her operations are confined to purchase of goods in India for the purpose of export.
- Royalty payable by a non-resident would be deemed to accrue or arise in India in the hands of the recipient only when such royalty is payable in respect of any right, property or information used for the purposes of a business or profession carried on

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by such non-resident in India or earning any income from any source in India. In the present case, since Mr. Rakesh, a non-resident, paid the royalty of ₹ 3,00,000 for a patent right used for development of a product in India, the same would be taxable in India in the hands of the recipient, Mr. Naveen, a non-resident, irrespective of the fact that only 50% of the royalty is received in India.

- (iv) Interest payable by a non-resident on the money borrowed for any purpose other than a business or profession in India, would not be deemed to accrue or arise in India. In the present case, since Mr. James, a non-resident borrowed the money for investment in shares of an Indian company, the interest on such borrowing of ₹ 1,20,000 (₹ 10,00,000 x 12%) payable to Mr. Akash, a non-resident would not be deemed to accrue or arise to him in India. Hence, the same would not be taxable in India in the hands of Mr. Akash.

Question 33

Mr. Jagdish, aged 61 years, has set-up his business in Thailand and is residing in Thailand since last 20 years. He owns a house property in Bangkok, half of which is used as his residence and half is given on rent (such rent received, converted in INR is ₹ 6,00,000). The annual value of the house in Thailand is ₹ 50,00,000 i.e. converted value in Inarched purchased a flat in Pune during F.Y. 2014-15, which has been given on monthly rent of ₹ 27,500 since 01.07.2017. The annual property tax of Pune flat is ₹ 40,000 which is paid by Mr. Jagdish whenever he comes to India. Mr. Jagdish last visited India in July 2017. He has taken a loan from Union Bank of India for purchase of the Pune flat amounting to ₹ 15,00,000. The interest on such loan for the F.Y. 2018-19 was ₹ 84,000. However, interest for March 2019 quarter has not yet been paid by Mr. Jagdish. He had a house in Jaipur which was sold in May 2014. In respect of this house he received arrears of rent of ₹ 96,000 in Feb. 2019 (not taxed earlier). He also derived some other incomes during F.Y. 2018-19 which are as follows: Profit from business in Thailand ₹ 2,75,000 Interest on bonds of a Japanese Co. ₹ 45,000 out of which 50% was received in India. Income from Apple Orchard in Nepal given on contract and the yearly contract fee of ₹ 5,00,000, for F.Y. 2018-19 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank account maintained with Union Bank of India's Pune Branch. Compute the total income of Mr. Jagdish for Assessment Year 2019-20 chargeable to income tax in India. (PYP 7 Marks, Nov'19)

Answer 33

Stay in India for a minimum period of 182 days in the relevant previous year or, in the alternative, 60 days in the relevant previous year and 365 days in the four immediately preceding previous years is required to qualify as a resident. In this case, since Mr. Jagdish has not visited India at any time during the P.Y. 2018 -19, he would be a non-resident for that year.

Computation of Total Income of Mr. Jagdish, a non-resident, for the A.Y. 2019-20

	Particulars	₹	₹
(I)	Income from house property		NIL
	Income from house property at Bangkok [Income from house property at Bangkok neither accrues or arises in India, nor is it deemed to accrue or arise in India; and it is also not stated to be received in India. Hence, it is not taxable in India, since he is a non-resident]		
	Income from house property in Pune (taxable in India since it accrues and arises in India)		
	Gross Annual Value of Pune flat4 (₹ 27,500 x 12)	3,30,000	

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	Less: Municipal taxes (Deduction is not allowable, since no amount has been paid during the previous year 2018-19)		Nil	
	Net Annual Value (NAV)		3,30,000	
	Less: Deductions u/s 24			
	(a) 30% of NAV	99,000		
	(b) Interest due on housing loan (allowable even if not paid)	84,000	1,83,000	
	Arrears of rent received in respect of Jaipur house (taxable u/s 25A, even if he is not the owner of the house property in the P.Y.2018-19)	96,000	1,47,000	
	Less: Deduction@30%	28,800	67,200	2,14,200
(ii)	Profits and gains of business or profession			
	Profit from business in Thailand (not taxable in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India; and it is also not stated to be received in India)			Nil
(iii)	Income from Other Sources			
	Interest on bonds of a Japanese company [Only ₹ 22,500, being 50% of ₹ 45,000 is taxable in India, since it is stated to be received in India]		22,500	
	Income from Apple Orchid in Nepal [Contract fee directly credited to bank account in India is taxable in India, since it is received in India]		5,00,000	5,22,500
	Total Income			7,36,700

Note: Contract fee for Apple Orchid has been stated to have been deposited directly by the contractor in the Kathmandu branch of UBI in Mr. Jagdish's bank account maintained with UBI's Pune Branch. Since the deposit is stated to have been made by 4 Rent received is taken as the gross annual value in the absence of information related to expected rent the contractor directly in UBI's Pune branch, the income is received in India and hence, would be taxable in the hands of Mr. Jagdish. The above solution has been worked out accordingly. However, due to the use of the word "in the Kathmandu branch", a view is taken that such receipt is actually received in Kathmandu and subsequently it is remitted to Indian branch, the amount of ₹ 5 lakh would not be taxable in India and hence, the total income would be ₹ 2,36,700.

Question 34

Mr. Jai Chand (an Indian citizen) left India for employment in country X on 5th June, 2014. He regularly visited India and stayed for 60 days in every previous year since then. However, in the financial year 2022-23, he did not come to India at all. He owns a commercial building in Delhi which is let out. He has also set a retail store in India which is controlled by his brother from India. He provides the following information to you regarding his income for the financial year 2022-23:

Income from commercial building in Delhi - ₹ 12,00,000 (computed as per the provisions of the Act).

Income from the retail store - ₹ 4,50,000 (computed as per the provisions of the Act)

Country X does not tax any individual on their income as there is no personal income-tax regime there.

Determine the residential status of Mr. Jai Chand for the Assessment year 2023-24.

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Will your answer change if he is a citizen of Country X? (PYP 3 Marks May '23)

Answer 34

Determination of residential status of Mr. Jai Chand for A.Y. 2023-24

Since Mr. Jai Chand, an Indian citizen employed in Country X, did not come to India at all during the P.Y. 2022-23, he would not be a resident for A.Y.2023-24 as per section 6(1).

However, since he is an Indian citizen

- having total income (excluding income from foreign sources) of ₹ 16,50,000 [₹ 12,00,000, being income from commercial building in India + ₹ 4,50,000, being Income from retail store in India], which exceeds the threshold of ₹ 15 lakhs during the previous year; and
- not liable to tax in Country X, he would be deemed resident in India for the P.Y. 2022-23.

A deemed resident is always a resident but not ordinarily resident in India (RNOR).

Yes, in case Mr. Jai Chand is a citizen of Country X, he would be non-resident in India for the P.Y. 2022-23, since the provisions of deemed resident are applicable only to an Indian citizen.

Question 35

The following are the incomes of Shri Subhash Chandra, a citizen of India, for the previous year 2018-19:

- (vii) **Income from business in India ₹ 2,00,000. The business is controlled from London and ₹ 60,000 were remitted to London.**
- (viii) **Profits from business earned in Japan ₹ 70,000 of which ₹ 20,000 were received in India. This business is controlled from India.**
- (ix) **Untaxed income of ₹ 1,30,000 for the year 2016-17 of a business in England which was brought in India on 3rd March, 2019.**
- (x) **Royalty of ₹ 4,00,000 received from Shri Ramesh, a resident, for technical service provided to run a business outside India.**
- (xi) **Agricultural income of ₹ 90,000 in Bhutan.**
- (xii) **Income of ₹ 73,000 from house property in Dubai, which was deposited in bank at Dubai.**

Compute Gross Total Income of Shri Sub hash Chandra for the A.Y. 2019-20, if he is -

- (3) **A Resident and Ordinarily Resident; and**
- (4) **A Resident but Not Ordinarily Resident (MTP 6 Marks Sep '23)**

Answer 35

Computation of Gross Total Income of Shri Sub hash Chandra for the A.Y. 2019-20

	Particulars	Resident and Ordinarily Resident [ROR] (₹)	Resident but Not Ordinarily Resident [RNOR] (₹)
(I)	Income from business in India, controlled from London [Taxable both in the hands ROR and RNOR, since income accrues/arises from business in India, irrespective of the fact that business is controlled from London]	2,00,000	2,00,000

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(ii)	Profits earned from business in Japan [Profits from business in Japan is taxable in the hands of ROR, since global income is taxable in the hands of ROR. Moreover, entire profit of ₹ 70,000 would be taxable in the hands of RNOR, even if only ₹ 20,000 is received in India, since the business in Japan is controlled from India]	70,000	70,000
(iii)	Untaxed income for the year 2016-17 of a business in England which was brought in India during the P.Y. 2018-19 [Not taxable either in the hands of ROR or RNOR, since such income is not related to the P.Y. 2018-19.]	Nil	Nil
(iv)	Royalty received from a resident for technical service provided to run a business outside India [Taxable in the hands of ROR, since global income is taxable in the hands of ROR. Not taxable in the hands RNOR, since royalty income is not deemed to accrue or arise in India as such income is paid by a resident for technical services used to run a business outside India.]	4,00,000	Nil
(v)	Agricultural Income in Bhutan ³ [Since agricultural income accrues/arises outside India, it is taxable only in the hands of ROR. No exemption is available in respect of agricultural income earned outside India]	90,000	Nil
(vi)	Income from house property in Dubai, which was deposited in a bank at Dubai		
	Since income accrues/arises outside India and is also		
	received outside India, it is taxable only in the hands of	73,000	
	ROR	21,900	
	Less: Deduction u/s 24@30%	51,100	Nil
	[See Note below for alternative treatment]		
	Gross Total Income	8,11,100	2,70,000

Note – In the above solution, income of ₹ 73,000 from house property in Dubai is presumed to be the rent received, since the said amount is stated to be the amount deposited in bank. Accordingly, deduction@30% of the said amount has been provided to compute the “Income from house property”, where Shri Sub hash Chandra is a ROR.

3 Presumed that the same was received in Bhutan However, since the words “Income from house property” appears to indicate that the same is the income computed under that head of income, it is possible to consider the said amount of ₹ 73,000 as income computed under the head “Income from house property” after providing deduction@30% under section 24(a). In such a case, the gross total income of Shri Sub hash Chandra, if he were a ROR, would be ₹ 8,33,000.

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Question 36

From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2022, compute the total income for the A.Y. 2022-23, if he is

- (c) Resident and ordinarily resident
(d) Non-resident (PYP 10 Marks May '18)

	Particulars	Amount (₹)
(i)	Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India. The consideration is also received outside India in foreign currency	1,50,000
(ii)	Rent from property in Delhi, let out to a branch of a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India	1,20,000
(iii)	Agricultural income from a land situated in Nepal, received in Nepal	55,000
(iv)	Interest on savings bank deposit in UCO Bank, Delhi	18,000
(v)	Income earned from business in London which is controlled from Delhi (₹ 35,000 is received in India)	60,000
(vi)	Gift received from his daughter on his birthday	55,000
(vii)	Past foreign taxed income brought to India	37,000
(viii)	Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000

Answer 36

Computation of total income of Mr. Ashutosh for the A.Y. 2022-23

Particulars	Resident and ordinarily resident (₹)	Non-resident (₹)
Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India and received outside India	1,50,000	1,50,000
Rent from property in Delhi, received outside India [₹ 1,20,000 – 30% of ₹ 1,20,000 under section 24(a)]	84,000	84,000
Agricultural income from a land situated in Nepal, received in Nepal	55,000	-
Interest on savings bank deposit in UCO Bank, Delhi	18,000	18,000
Income earned from business in London which is controlled from Delhi	60,000	35,000
Gift received from daughter (Not taxable, since daughter is a relative)	-	-
Past foreign taxed income brought to India (Not taxable)	-	-

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Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000	-
Gross Total Income	3,79,000	2,87,000
Less: Deduction under section 80TTB/80TTA		
[Interest on savings bank account subject to a maximum of ₹ 50,000/₹ 10,000]	18,000	10,000
Total Income	3,61,000	2,77,000

Notes -

3. In case of a resident and ordinarily resident, global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
 - (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, agricultural income from a land situated in Nepal, income earned from business in London which is controlled from Delhi, received outside India and fees for technical services from a non-resident for business outside India is not taxable in case of non-resident.
4. In case of a senior citizen, being a resident aged 60 years or more, interest upto ₹ 50,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTB while in case of a non-resident, interest upto ₹ 10,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTA.

Question 37

Mr. Krishna (aged 58 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in UK on 15th March 2021. His income during the financial year 2021-22 is given hereunder:

Particulars	₹
Rent from a house situated at UK, received in UK. Thereafter, remitted to Indian bank account.	5,25,000
Interest on Post office savings bank account in India	4,500
Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Krishna did not come to India during the financial year 2021-22. Compute his total income for the Assessment year 2022-23. Assume he does not opt for section 115BAC. (RTP Nov '19 & Nov '18)

Answer 37

Mr. Krishna is a non-resident for the A.Y.2022-23, since he was not present in India at any time during the previous year 2021-22 [Section 6(1)].

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

- (iii) Income received or deemed to be received in India; and
- (iv) Income accruing or arising or income deemed to accrue or arise in India.

Computation of Total Income of Mr. Krishna for A.Y. 2022-23

Particulars	₹
Salaries Salary from Government of India (Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in	9,25,000

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the hands of Mr. Krishna, a citizen of India, even though he is a non-resident and rendering services outside India)	
Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil
Gross Salary	9,25,000
Less: Standard Deduction under section 16(ia) of ₹ 50,000, being lower of gross salary or ₹ 50,000	50,000
	8,75,000
Income from House Property Rent from a house situated at UK, received in UK (Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	Nil
Income from Other Sources	
Interest on Post office savings bank account – exempt upto ₹ 3,500	1,000
Gross Total Income	8,76,000
Less: Deduction under section 80TTA	1,000
Total Income	8,75,000

Question 38

Mr. Sarthak, an individual and Indian citizen living in Dubai, since year 2005 and never came to India for a single day since then, earned the following incomes during previous year 2022-23:

	Particulars	Amount (in ₹)
(i)	Income accrued and arisen in Dubai but he is not liable to tax in Dubai	20,00,000
(ii)	Income accrued and arisen in India	5,00,000
(iii)	Income deemed to accrue and arise in India	8,00,000
(iv)	Income arising in Dubai from a profession set up in India	10,00,000

- IV. Determine the residential status of Mr. Sarthak and taxable income for the previous year 2022-23 (assuming no other income arise during the previous year).
- V. What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?
- VI. What would be your answer, if Mr. Sarthak is not an Indian citizen but his parents were born in India? (PYP 6 Marks Nov '22)

Answer 38

- IV. Mr. Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for the P.Y. 2022 -23 on the basis of number of days of his stay in India as per section 6(1). However, since he is an Indian citizen
- having total income (excluding income from foreign sources) of ₹ 23 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year; and
 - not liable to tax in Dubai, he would be deemed resident in India for the P.Y. 2022-23 by virtue of section 6(1A). A deemed resident is always a resident

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but not ordinarily resident in India (RNOR).

Computation of Total Income for A.Y.2023-24

	Particulars	₹
(i)	Income accrued and arisen in Dubai (not taxable in case of an RNOR)	-
(ii)	Income accrued and arisen in India (taxable)	5,00,000
(iii)	Income deemed to accrue or arise in India (taxable)	8,00,000
(iv)	Income arising in Dubai from a profession set up in India would be taxable in case of RNOR	10,00,000
	Total income	23,00,000

V. If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would not be deemed resident.

Accordingly, he would be non-resident in India for the P.Y. 2022-23 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above i.e., ₹ 5 lakhs + ₹ 8 lakhs).

VI. If Mr. Sarthak is not an Indian citizen and his parents were born in India, he would be person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him.

Accordingly, he would be non-resident in India during the P.Y. 2022-23 and his total income would be ₹ 13 lakhs.

Section - B

Question 1

Mr. Ram, an Indian citizen, left India on 22.09.2023 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the A.Y. 2024-25.

Answer 1

Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions -

(i) He has been in India during the previous year for a total period of 182 days or more, or

(ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in above.

During the previous year 2023-24, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes. Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2024-25.

Question 2

Mr. Dey, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2022 for permanent settlement. What will be his residential status for A.Y. 2024-25?

Answer 2

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Mr. Dey is a resident in A.Y. 2024-25 since he has stayed in India for a period of 366 days (more than 182 days) during the P.Y. 2023-24.

As per section 6(6), a person will be "Not ordinarily Resident" in India in any previous year, if such person, inter alia,

- (a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- (b) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.

For the previous year 2023-24 (A.Y. 2024-25), his status would be "Resident but not ordinarily resident" since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2023-24. He was resident only in the P.Y. 2022-23. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.

He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 545 days [365 days in P.Y. 2022-23 + (30 days x 6 years)] in 7 previous years immediately preceding the P.Y. 2023-24, which is less than 730 days.

Question 3

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the F.Y. 2023-24. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2024-25 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Sr. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company, received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company, received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

Answer 3

Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2024-25

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S. No.	Particulars	Mr. Ramesh (Non-Resident) (₹)	Mr. Suresh (Resident) (₹)
1.	Interest on Canada Development Bond (See Note 2)	17,500	40,000
2.	Dividend from British Company received in London (See Note 3)	-	20,000
3.	Profits from a business in Nagpur but managed directly from London (See Note 2)	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India (See Note 2)	60,000	90,000
5.	Income from a business in Chennai (See Note 2)	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada (See Note 2)	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi (See Note 2)	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh (See Note 4)	-	-
9.	Income from house property at Bhopal (See Note 5)	70,000	42,000
	Gross Total income	4,34,500	4,14,000
	Less: Deduction under Chapter VI-A		
	Section 80C - Life insurance premium	-	30,000
	Section 80TTA (See Note 6)	7,000	10,000
	Total Income	4,27,500	3,74,000

Notes:

- Mr. Ramesh is a non-resident since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
- In case of a resident and ordinarily resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
 - Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.
 Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a non-resident.

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The income referred to in Sl. No. 3,4,5 and 7 are taxable in the hands of both Mr. Ramesh and Mr. Suresh since they accrue or arise/ deemed to accrue or arise in India.

Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50%, which is received in India, is taxable in the hands of Mr. Ramesh.

3. Dividend received from British company in London by Mr. Ramesh, a non-resident, is not taxable since it is accrued and received outside India. However, such dividend received by Mr. Suresh is taxable, since he is a resident and ordinarily resident.
4. Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
5. Income from house property –

	Mr. Ramesh (₹)	Mr. Suresh (₹)
Rent received	1,00,000	60,000
Less: Deduction u/s 24(a) @30%	30,000	18,000
Net income from house property	70,000	42,000

The net income from house property in India would be taxable in the hands of both Mr. Ramesh and Mr. Suresh, since the accrual and receipt of the same are in India. In case of an individual, interest upto ₹ 10,000 from savings account with, inter alia, a bank is allowable as deduction under section 80TTA.

Question 4

Examine the correctness or otherwise of the statement - “Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus”. (New SM)

Answer 4

This statement is correct.

As per *Explanation* to section 9, income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not -

- (i) non-resident has a residence or place of business or business connection in India; or
- (ii) the non-resident has rendered services in India.

In effect, the income by way of fees for technical services, interest or royalty from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India and irrespective of whether the non-resident has a residence or place of business or business connection in India.

Question 5

Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients:

- (i) **Salary payable by Central Government to Mr. John, a citizen of India of ₹ 7,00,000 for the services rendered outside India considering that he pays tax as per the provisions of section 115BAC.**
- (ii) **Interest on moneys borrowed from outside India ₹ 5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.**
- (iii) **Post office savings bank interest of ₹ 19,000 received by a resident assessee, Mr. Ram, aged 46 years if he exercises the option of shifting out of the default**

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tax regime provided under section 115BAC(1A).

- (iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India.
- (v) Legal charges of ₹ 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court. (New SM)

Answer 5

Taxability of receipts

	Taxable/ Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,50,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹ 50,000 under section 16(ia).
(ii)	Taxable	5,00,000	As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	5,500	The interest on Post office savings bank a/c would be exempt u/s 10(15)(i) only to the extent of ₹ 3,500 in case of an individual a/c. Further, interest upto ₹ 10,000, would be allowed as
			deduction u/s 80TTA from Gross Total Income. Balance ₹ 5,500 i.e., ₹ 19,000 - ₹ 3,500 - ₹ 10,000 would be taxable in the hands of Mr. Ram, a resident.
(iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
(v)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received

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			in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.
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Question 6: illustration

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2023. From the following details for the P.Y. 2023-24, determine the residential status of Mr. Anand for A.Y. 2024-25, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2023-24) is 400 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6 th June, 2021
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9 th December, 2021

Answer 6

In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2023-24 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more.

The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period beginning from 6th June, 2023 and ending on 9th December, 2023, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2023-24 would be 179 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2023-24 is less than 182 days, he is a non-resident for A.Y. 2024-25.

Question 7: illustration

Brett Lee, an Australian cricket player visits India for 100 days in every financial year. This has been his practice for the past 10 financial years.

- Find out his residential status for the assessment year 2024-25.
- Would your Answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
- What would be your Answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y. 2023-24?

Answer 7

- Determination of Residential Status of Mr. Brett Lee for the A.Y. 2022-23:-**

Period of stay during previous year 2023-24 = 100 days

Calculation of period of stay during 4 preceding previous years (100 x 4 = 400 days)

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2020-21	100 days
2019-20	100 days
2018-19	100 days
2017-18	<u>100 days</u>
Total	<u>400 days</u>

Mr. Brett Lee has been in India for a period more than 60 days during previous year 2023-24 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the assessment year 2024-25. Computation of period of stay during 7 preceding previous years = $100 \times 7 = 700$ days

2020-21	100 days
2019-20	100 days
2018-19	100 days
2017-18	100 days
2016-17	100 days
2015-16	100 days
2014-15	<u>100 days</u>
Total	<u>700 days</u>

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the assessment year 2024-25. (See Note below)

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the previous year 2023-24 relevant to the assessment year 2024-25.

Note: An individual, not being an Indian citizen, would be not-ordinarily resident person if he satisfies any one of the conditions specified under section 6(6), i.e.,

- (i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- (ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less.

In this case, since Mr. Brett Lee satisfies condition (ii), he is a not-ordinarily resident for the A.Y. 2024-25.

- (b) If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income (excluding income from foreign sources), since his stay in India in the current financial year is, in any case, less than 120 days.
- (c) In this case, if Srinath's total income (excluding income from foreign sources) exceeds Rs. 15 lakh, he would be treated as resident but not ordinarily resident in India for P.Y.2023-24, since his stay in India is 120 days in the P.Y.2023-24 and 480 days (i.e., 120 days x 4 years) in the immediately four preceding previous years. If his total income (excluding income from foreign sources) does not exceed Rs. 15 lakh, he would be treated as non-resident in India for the P.Y. 2023-24, since his stay in India is less than 182 days in the P.Y. 2023-24.

Question 8: illustration

Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2017-18. During the financial years 2019-20 2020-21, 2021-22, 2022-23 and 2023-24

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he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the A.Y. 2024-25.

Answer 8

During the previous year 2021-22, Mr. B was in India for 70 days and during the 4 years preceding the previous year 2023-24, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).

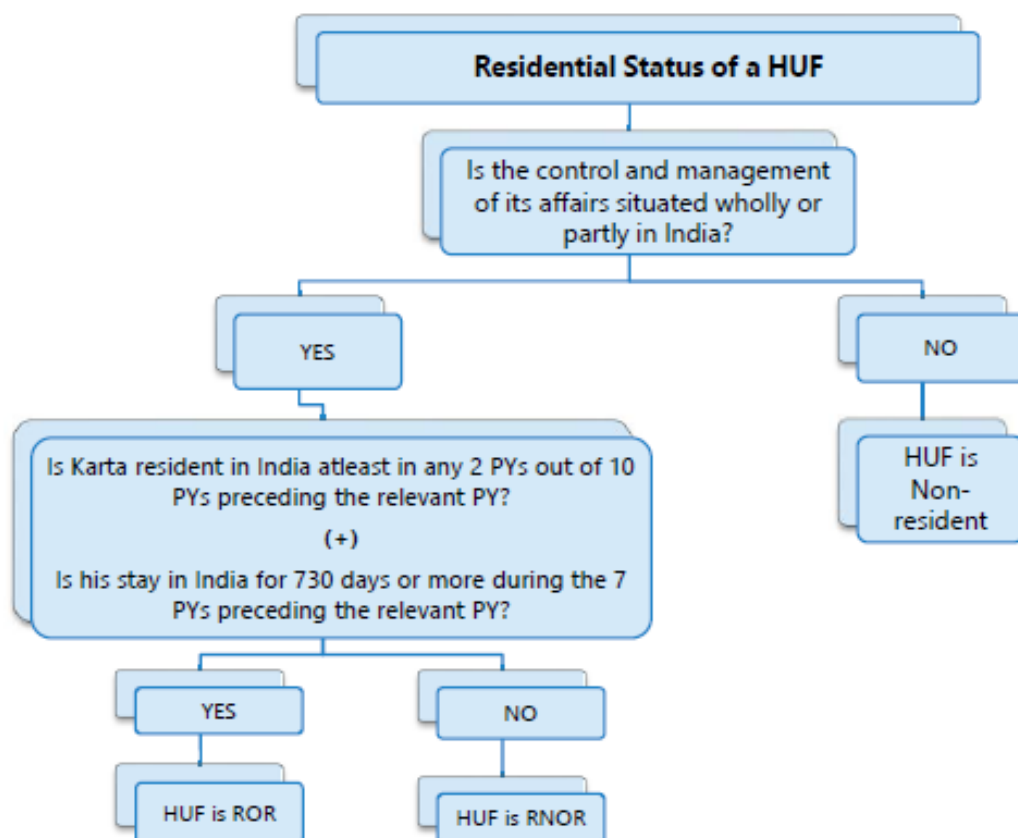
Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the previous year 2023-24.

Question 9: illustration

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2023-24 after 15 years. He comes to India on 1.4.2023 and leaves for Australia on 1.12.2023. Determine the residential status of Mr. E and the HUF for A.Y. 2024-25.

Answer 9

- (a) During the P.Y. 2023-24, Mr. E has stayed in India for 245 days (i.e. 30+31+30+31+31+30+31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy the condition for being ordinarily resident. Therefore, the residential status of Mr. E for the P.Y. 2023-24 is resident but not ordinarily resident.
- (b) Since the business of the HUF is transacted from Australia and policy decisions are taken there, it is assumed that the control and management is in Australia i.e., the control and management is wholly outside India. Therefore, the HUF is a non-resident for the P.Y. 2023-24.



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Question 10: illustration

From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2024, compute the total income for the assessment year 2024-25, if he is:

- (i) Resident and ordinary resident;
- (ii) Resident but not ordinarily resident;
- (iii) Non-resident

	Particulars	Rs.
(a)	Short term capital gains on sale of shares of an Indian Company received in Germany	15,000
(b)	Dividend from a Japanese Company received in Japan	10,000
(c)	Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d)	Dividend from RP Ltd., an Indian Company	6,000
(e)	Agricultural income from land in Gujarat	25,000

Answer 10

Computation of total income of Mr. Anirudh for the A.Y. 2024-25

Particulars	Resident & ordinarily resident Rs.	Resident but not ordinarily resident Rs.	Non-Resident Rs.
1) Short term capital gains on sale of shares of an Indian company, received in Germany	15,000	15,000	15,000
2) Dividend from a Japanese company, received in Japan	10,000	-	-
3) Rent from property in London deposited in a bank in London [See Note (i) below]	52,500	-	-
4) Dividend from RP Ltd., an Indian Company	6,000	6,000	6,000
5) Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-
Total Income	83,500	21,000	21,000

Notes:

- (i) It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been provided and the net income so computed is taken into account for determining the total income of a resident and ordinarily resident.

	Rs.
Rent received (assumed as gross annual value)	75,000
Less: Deduction under section 24 (30% of Rs. 75,000)	22,500
Income from house property	52,500

- (ii) Agricultural income is exempt under section 10(1).

Question 11: illustration

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Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2023 due to his transfer to High Commission of Canada. He did not visit India any time during the previous year 2023-24. He has received the following income for the Financial Year 2023-24:

S. No.	Particulars	Rs.
(i)	Salary (Computed)	5,00,000
(ii)	Foreign Allowance [not included in (i) above]	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

Compute his Gross Total Income for Assessment Year 2024-25.

Answer 11

As per section 6(1), Mr. David is a non-resident for the A.Y. 2024-25, since he was not present in India at any time during the previous year 2023-24.

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

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

In view of the above provisions, income from agriculture in Nepal and income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in Nepal. Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a non-resident.

However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7). Hence, foreign allowance of Rs. 4,00,000 is exempt under section 10(7) in the hands of Mr. David.

Gross Total Income of Mr. David for A.Y. 2024-25

Particulars	Rs.
Salaries (computed)	5,00,000
Income from other sources (Interest on fixed deposit in India)	1,00,000
Gross Total Income	6,00,000

Question 12: illustration

Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practicing in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident. The consultancy is related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India?

Answer 12

A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India. The income deemed to accrue or arise in India under section 9 comprises, inter alia, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of "fees for technical services".

The Explanation below section 9(2) clarifies that income by way of, inter alia, fees for

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technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India or whether or not the non-resident has a residence or place of business or business connection in India. In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

Question 13: illustration

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2024-25 –

Particulars	Amount (Rs.)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of profits are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (Rs. 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai managed from London	26,000
Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000

Paper 3 - Taxation

Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

Answer 13

Computation of total income for the A.Y. 2024-25

Particulars	Resident and ordinarily resident Rs.	Resident but not ordinarily resident Rs.	Non-resident Rs.
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term Capital gains on sale of plant at Germany, 50% of profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from Delhi, out of which Rs. 40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Mumbai managed from London	26,000	26,000	26,000
Income from property situated in Nepal and received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal, received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000

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Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	-
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of Rs.10,000]	10,000	10,000	10,000
Total Income	3,42,000	2,08,000	1,73,000

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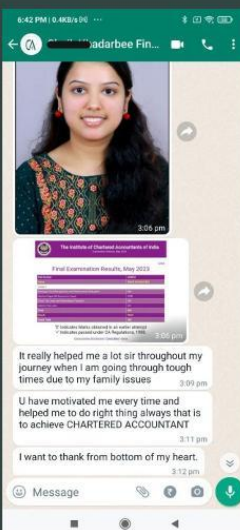
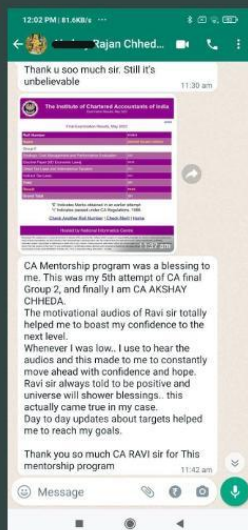
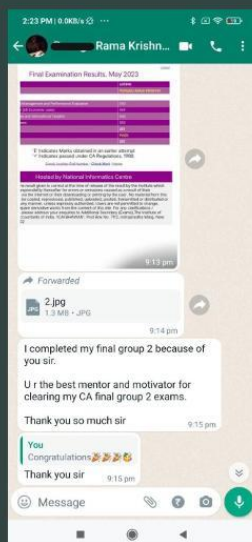
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Paper 3 - Taxation

CHAPTER 3.1 SALARIES

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q3,Q4, Q5								Q6	
RTP			Q2		Q7					Q1		
Q & A												
MTP	Q12	Q6		Q9	Q11		Q5	Q7,Q 8	Q13	Q10		
PYP	Q2	Q15,Q 17								Q16	Q1	
RTP		Q19	Q4		Q14,Q 18				Q3			

Section - A MULTIPLE CHOICE QUESTIONS (MCQS)

1. Mr. Karan completed his MBA in April 2021 and joined XYZ Ltd from 01.05.2021. His basic salary is ₹ 2,25,000 p.m. He is paid 12% of basic salary as D.A forming part of retirement benefits. He contributed 11% of his pay and D.A. towards recognized provident fund and the company contributes the same amount. Accumulated interest on provident fund as on 31.3.2022 is ₹ 49,325. What would be the income chargeable to tax under the head "Salaries" of Mr. Karan for the A.Y. 2022-23 if he does not opt for section 115BAC?
- (a) ₹ 27,26,442
 (b) ₹ 27,30,884
 (c) ₹ 27,22,000
 (d) ₹ 27,71,325 (RTP Nov'22)

Ans :(a)

2. Miss Riya has started working in a reputed company. This is her first job. She earned total income of ₹8 Lakhs in P.Y. 2018-19. While filing her return of income she had a doubt with respect to deduction of transport allowance. Her father advised her that she cannot claim deduction of transport allowance while her friend told that maximum deduction of ₹1600 p.m. in respect of the said allowance can be claimed. According to you, what is the correct treatment for the same?
- (a) Transport allowance upto a maximum ₹1600 per month can be claimed.
 (b) Transport allowance upto a maximum ₹800 per month can be claimed.
 (c) No separate deduction for transport allowance is allowed. However, a standard deduction of ₹ 40,000 is allowed to salaried assesseees.
 (d) Deduction of transport allowance is allowed without any monetary limit. (RTP May '19)

Ans: (c) (As per amendment standard deduction of Rs.50,000)

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3. **X is an employee of Z Ltd who receives ₹1,25,000 as gratuity (he is covered under the Payment of Gratuity Act, 1972). He retires on 31.01.2019 after service of 29 years and 8 months. At the time of retirement, X drew monthly salary of ₹ 5,200 and monthly bonus of ₹ 2,000. Compute the amount of gratuity exempt from tax in the instant case u/s 10(10) of the Income-tax Act, 1961.**

- (a) ₹ 90,000
- (b) ₹1,25,000
- (c) ₹ 78,000
- (d) ₹ 87,000 (MTP 2 Marks, March'19)

Ans: (a)

4. **A member of parliament is entitled to salary, constituency allowance and daily allowance when the Parliament is in session. Which of the following statements are correct?**

- (d) His entire income is taxable under the head "Salaries".
- (e) Only his salary component is taxable under the head "Salaries". Constituency allowance and daily allowance are exempt.
- (f) Only his salary component is taxable under the head "Income from other sources". Constituency allowance and daily allowance are exempt.
- (g) His salary component and constituency allowance is taxable under the head "Income from other sources". Daily allowance is exempt. (MTP 1 Mark, April'19)

Ans : (c)

5. **Provision of rent free accommodation and motor car owned by Alpha Ltd. to its employee Mr. Anurag, where motor car is allowed to be used by Mr. Anurag both for official and personal purposes, is a -**

- (a) perquisite taxable in case of all employees
- (b) perquisite taxable only in case of specified employees
- (c) perquisite of rent free accommodation is taxable in case of all employees whereas perquisite of motor car is taxable only in case of specified employees
- (d) perquisite of rent free accommodation is taxable only in case of specified employees whereas perquisite of motor car is taxable in case of all employees (MTP 2 Marks, April'19)

Ans: (c)

6. **Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During F.Y. 2022-23, following transactions were undertaken by Mr. Jagat:**

- (i) **He attended a seminar on "Perquisite Valuation". Seminar fees of ₹ 12,500 was paid by Bharat Ltd.**
- (ii) **Tuition fees of Mr. Himanshu (son of Mr. Jagat) paid to private coaching classes (not having any tie-up with Bharat Ltd.) was reimbursed by Bharat Ltd. Amount of fees was ₹ 25,000.**
- (iii) **Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned and maintained by Bharat Ltd.). Tuition fees paid for Ms. Sapna was ₹ 750 per month by Mr. Jagat. Cost of education in similar institution is ₹ 5,250 per month.**

What shall be the amount which is chargeable to tax under the head "Salaries" in hands of Mr. Jagat for A.Y. 2023-24?

- (a) ₹25,000
- (b) ₹37,500
- (c) ₹66,500

Paper 3 - Taxation

(d) ₹ 79,000 (MTP 2 Marks April '23)

Ans: (d)

7. Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During F.Y. 2018-19, following transactions were undertaken by Mr. Jagat:

- (i) He attended a seminar on "Perquisite Valuation". Seminar fees of ₹ 12,500 was paid by Bharat Ltd.
- (ii) Tuition fees of Mr. Himanshu (son of Mr. Jagat) was reimbursed by Bharat Ltd. Amount of fees is ₹ 25,000.
- (iii) Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned and maintained by Bharat Ltd.). Tuition fees paid for Ms. Sapna was ₹ 750 per month. Cost of education in similar institution is ₹ 5,250 per month.

Compute the amount which is chargeable to tax under the head "Salaries" in hands of Mr. Jagat for A.Y. 2019-20.

- (a) ₹ 25,000
- (b) ₹ 37,500
- (c) ₹ 66,500
- (d) ₹ 79,000 (RTP May '20)

Ans: (d)

Question & Answers**Question 1**

Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2023 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

- (i) Gratuity of ₹ 7,50,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of ₹ 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.
- (iii) Crockery set worth ₹ 4,500 from his employer at the farewell party which was organised by the HR department a day before his retirement.

He drew a basic salary of ₹ 25,000 per month along with 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2022 to 31st March, 2023.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2021 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.

You are required to compute the taxable salary of Mr. Rohan for A.Y. 2023-24 assuming that he neither claims any relief under section 89 nor does he opt to pay tax under section 115BAC. (PYP 7 Marks May '23)

Answer 1

Computation of taxable salary of Mr. Rohan for A.Y. 2023-24

Particulars		
Basic Salary ₹ 25,000 x 12		3,00,000
Dearness Allowance (50% of basic salary)		1,50,000
Gratuity [₹ 7,50,000 - ₹ 6,05,769]		1,44,231

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Less: Exempt under section 10(10) - Least of the following:		
(i) Notified limit	20,00,000	
(ii) Actual gratuity received	7,50,000	
(iii) $15/26 \times$ last drawn salary \times no. of completed years of services or part in excess of 6 months [$15/26 \times 37,500^+ \times 28$]	6,05,769	
Leave encashment [$\text{₹ } 3,25,000 - \text{₹ } 1,75,000$]		1,50,000
Less: Exempt under section 10(10AA) - Least of the following:	3,00,000	
(iv) Notified limit		
(v) Actual leave salary received	3,25,000	
(vi) 10 months \times $\text{₹ } 25,000$	2,50,000	
(vii) Cash equivalent of leave to his credit [$\text{₹ } 25,000 \times 210/30$]	1,75,000	
Crockery set [not a perquisite, since value of gift does not exceed $\text{₹ } 5,000$]		-
Perquisite value of car [Driver's salary met by employer $\text{₹ } 1,20,000$ (i.e., $\text{₹ } 10,000 \times 12$) + $\text{₹ } 80,000$ (10% of $\text{₹ } 8,00,000$), being normal wear and tear on car]		2,00,000
Gross Salary		9,44,231
Less: Standard deduction u/s 16(ia)		50,000
Taxable Salary		8,94,231

Question 2

Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year.

He submits the following information:

Salary received outside India (For 6 months) $\text{₹ } 50,000$ P.M Salary received in India (For 6 months) $\text{₹ } 50,000$ P.M.

He has been given rent free accommodation in U.S.A. for which company pays $\text{₹ } 15,000$ per month as rent, but when he comes to India, he stays in the guest house of the company. During this period, he is given free lunch facility.

During the previous year, company incurred an expenditure of $\text{₹ } 48,000$ on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is $\text{₹ } 8,00,000$. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is $\text{₹ } 5,000$. His elder son is studying in India for which his employer spends $\text{₹ } 12,000$ per year whereas his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets $\text{₹ } 3,000$ per month as combined allowance.

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The company has taken an accident insurance policy and a life insurance policy. During the previous year, the company paid premium of ₹ 5,000 and ₹ 10,000, respectively. Compute Mr. Honey's taxable income from salary for the Assessment Year 2018 -19. (PYP 10 Marks, May'18)

Answer 2

Since Mr. Honey stays in India for at least 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside India would be taxable in India as per the provisions of the Income-tax Act, 1961.

Computation of total income from salary of Mr. Honey for the A.Y. 2018-19

Particulars		
Basic Salary		
Salary received outside India for 6 months (₹ 50,000 x 6)	3,00,000	
Salary received in India for 6 months (₹ 50,000 x 6)	3,00,000	6,00,000
Children Education and Hostel Allowance		
Amount received from employer (₹ 3,000 x 12)	36,000	
[No exemption is available in respect of allowance received for any education or hostel facility of children outside India]	Nil	36,000
Perquisites:		
Value of rent-free accommodation in USA		95,400
Lower of:		
- 15% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance)	95,400	
- Rent paid by employer = ₹ 15,000 x 12	1,80,000	
Value of guest house in India		-
[not taxable, since it is provided for stay when he visits India wholly for official purposes]		
Lunch facility provided by employer [Taxable perquisite, since the value exceeds ₹ 50 per meal] [See Note 1 below]		48,000
Motor car provided by employer [₹ 14,400 + ₹ 70,000] [See Note 2 below]		84,400
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹ 14,400 [₹ 2,400 x 6], since cubic capacity exceeds 1.6 liters, assuming that expenses are fully met by employer	14,400	
Used for personal purposes by his family members for 6 months when he is in India		
Actual running and maintenance expenditure₃ [₹ 5,000 x 6]	30,000	
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	40,000	70,000
Education expenditure of elder son in India met by employer [Fully taxable perquisite]		12,000

Paper 3 - Taxation

Life insurance premium paid by the employer – any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite		10,000
Accident insurance premium paid by employer – exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.		-
Gross Salary		8,85,800
Less: Deductions under section 16 Standard deduction (lower of actual salary or Rs. 50,000) (as per amendment)		Nil (50,000)
Taxable Salary		8,35,800

Notes:

- (1) Lunch facility provided to Mr. Honey is a taxable perquisite as per Rule 3(7)(iii). The benefit under the proviso to this Rule would be available only if the value does not exceed ₹ 50 per meal. In this case since the value far exceeds ₹ 50 per meal, the benefit under the proviso to Rule 3(7)(iii) is not available. The above solution has been worked out accordingly. However, in page 17 of the CBDT Circular No. 29/2017 dated 5.12.2017, the method of valuation of perquisite of free lunch facility has been explained. As per the said circular, a fixed sum of ₹ 50 per meal has to be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility.

3 It is assumed that the same is fully met by the employer

- (2) In the above solution, the perquisite value of motor car provided by employer has been worked out assuming that the employer fully meets the running and maintenance expenses. However, if expenses of running and maintenance of motor car are fully met by Mr. Honey himself, then, the value of perquisite of motor car would be as follows:

Particulars	Value
Motor car provided by employer [₹ 5,400 + ₹ 40,000]	
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹ 900 p.m., since cubic capacity exceeds 1.6 liters,	5,400
Used for personal purposes by his family members for 6 months when he is in India	
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	40,000
	45,400

In this case, the taxable salary would be ₹ 8,46,800.

Question 3

Mr. Sunil is the CEO of Sheetal Textiles Ltd. His basic salary is ₹ 6,00,000 p.m. He

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is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2020, 31.3.2021 and 31.3.2022 is ₹ 50,35,000, ₹ 71,46,700 and ₹ 94,57,700, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. Sunil u/s 17(2)(vii) and 17(2)(viia) for the A.Y. 2021-22 and A.Y. 2022-23. (RTP May '22)

Answer 3

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2021-22

5. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2020-21 – ₹ 7,50,000 = ₹ 27,600

6. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.0914 + 0$
 $= ₹ 1,261$

PC Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2020-21 = ₹ 27,600

PC1 Nil

TP1 Nil

R $I/Favg = 5,56,500/60,90,850 = 0.0914$

I RPF balance as on 31.3.2021 – employee's and employer's contribution during the year – RPF balance as on 1.4.2020 = ₹ 5,56,500 (₹ 71,46,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 50,35,000)

Favg Balance to the credit of recognized provident fund as on 1st April, 2020 + Balance to the credit of recognized provident fund as on 31st March, 2021)/2 = $(₹ 50,35,000 + ₹ 71,46,700)/2 = ₹ 60,90,850$

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2022-23

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2021-22 – ₹ 7,50,000 = ₹ 27,600

2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.0910 + (27,600 + 1,261) \times 0.0910$
 $= ₹ 1,256 + ₹ 2,626$
 $= ₹ 3,882$

PC	Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2021-22 = ₹ 27,600
PC1	Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2020-21 = ₹ 27,600
TP1	Taxable perquisite under section 17(2)(viia) for the P.Y. 2020 -21 = ₹ 1,261
R	$I/Favg = 7,55,800/83,02,200 = 0.0910$
I	RPF balance as on 31.3.2022 – employee's and employer's contribution during the year – RPF balance as on 1.4.2021 = ₹ 7,55,800 (₹ 94,57,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 71,46,700)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2021 + Balance to the credit of recognized provident fund as on 31st March, 2022)/2 = $(₹ 71,46,700 + ₹ 94,57,700)/2 = ₹ 83,02,200$

Note – Since the employee's contribution to RPF exceeds ₹ 2,50,000 in the P.Y.2021-22, interest on ₹ 5,27,600 (i.e., ₹ 7,77,600 – ₹ 2,50,000) will also be chargeable to tax.

Question 4

Ms. Aarohi is the HR manager in Shipra limited. She gives you the following

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particulars: Basic Salary ₹ 70,000 p.m.

Dearness Allowance ₹ 24,000 p.m. (30% of which forms part of retirement benefits)

Bonus ₹ 21,000 p.m.

Her employer has provided her with an accommodation on 1st April 2018 at a concessional rent. The house was taken on lease by Shipra Ltd. for ₹ 12,000 p.m. Ms. Aaroahi occupied the house from 1st November, 2018, ₹ 4,800 p.m. is recovered from the salary of Ms. Aaroahi. The employer gave her a gift voucher of ₹ 10,000 on her birthday. She contributes 18% of her salary (Basic Pay plus DA) towards recognised provident fund and the company contributes the same amount.

The company pays medical insurance premium to effect insurance on the health of Ms. Aaroahi ₹ 20,000.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Aaroahi from 1st November, 2018 which is used for both official and personal purposes. Repair and running expenses of ₹ 70,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Aaroahi for the Assessment Year 2019-20. (RTP May '19)

Answer 4

Computation of income chargeable to tax under the head "Salaries" in the hands of Ms. Aaroahi for A.Y.2019-20

Particulars	₹
Basic Salary [₹ 70,000 x 12]	8,40,000
Dearness allowance [₹ 24,000 x 12]	2,88,000
Bonus [₹ 21,000 x 12]	2,52,000
Perquisite value in respect of concessional rent [See Working Note below]	36,000
Gift voucher given by employer on Ms. Aaroahi's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) [See Note for Alternative view]	10,000
Employer's contribution to recognized provident fund in excess of 12% of salary	91,872
= 18% x [(₹ 70,000 + ₹ 24,000) x 12] - 12% x {(₹ 70,000 + ₹ 7,200 (being 30% of ₹ 24,000)) x 12} = 2,03,040 - 1,11,168 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	
Medical insurance premium of ₹ 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite	-
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be ₹2400/- p.m. [₹2,400 x 5 months]	12,000
Gross salary	15,29,872

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Less: Standard deduction under section 16(ia) (As per amendment Rs. 50,000)	40,000 50,000
Salary chargeable to tax	14,89,872 14,79,872

Working Note:

Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 15% of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite.

Actual rent paid by the employer from 1.11.2018 to 31.3.2019 = ₹ 60,000 [₹ 12,000 x 5 months]

15% of salary = ₹ 73,650 [15% x (₹ 70,000 + ₹ 7,200 + ₹ 21,000) x 5 months]

Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus

Lower of the above is ₹ 60,000 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 60,000 – ₹24,000 [₹ 4,800 x 5 months] = ₹ 36,000

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv).

In this case, the gift voucher of ₹ 10,000 was received by Ms. Aarohi from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. The salary chargeable to tax, in this case, would be ₹ 14,84,872.

Question 5

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2021-22.

- (i) **Basic salary is ₹ 70,000 per month.**
- (ii) **Dearness allowance @ 40% of basic salary**
- (iii) **He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.**
- (iv) **Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.**
- (v) **Smile Ltd. allotted 800 sweat equity shares in August 2020. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.**
- (vi) **He was provided with furniture during September 2016. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2021, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.**
- (vii) **Received ₹ 10,000 towards entertainment allowance.**

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- (viii) **Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2020 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2020. The lending rate of SBI for similar loan as on 01.04.2020 was 8%.**
- (ix) **Facility of laptop costing ₹ 50,000 (MTP Mar'21,7 Marks)**

Answer 5

Computation of income under the head "Salaries" of Mr. Samaksh for the A.Y.2021-22

Particulars	₹	₹
Basic Salary [₹70,000 x 12 months]		8,40,000
Dearness allowance [40% of ₹8,40,000]		3,36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2020 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]		49,291
Health insurance premium paid by the employer [tax free perquisite]		Nil
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] (See note below)		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ ₹ 700 each	5,60,000	
Less: Amount recovered @ ₹ 450 each	3,60,000	2,00,000
Use of furniture by employee 10% p.a. of the actual cost of ₹ 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee Value of furniture transferred to Mr. Samaksh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2016 to September 2020)]	44,000	66,000
Gross Salary		15,22,291
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		14,72,291

Working Note:

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2020 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3.5% for the month (₹)
April, 2020	15,00,000	4,375
May, 2020	15,00,000	4,375
June, 2020	14,50,000	4,229
July, 2020	14,50,000	4,229

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August, 2020	14,50,000	4,229
September, 2020	14,00,000	4,083
October, 2020	14,00,000	4,083
November, 2020	14,00,000	4,083
December, 2020	13,50,000	3,937.50
January, 2021	13,50,000	3,937.50
February, 2021	13,50,000	3,937.50
March, 2021	13,00,000	3,792
Total value of this perquisite		49,290.50

Note: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.

Question 6

Mr. Thomas is an executive at M/s. A Ltd., Chennai from 01-04-2017. His salary and other particulars are as given here under:

Basic Salary ₹ 20,000 p.m.

Dearness Allowance ₹ 15,000 p.m. (100% forming part of retirement benefits)

House Rent Allowance ₹ 20,000 p.m.

Rent paid by Mr. Thomas is ₹ 25,000 p.m.

Telephone bills paid by A Ltd. for the telephone installed at his Residence ₹ 24,000 p.a.

Motor car running and maintenance charges of ₹ 30,600 fully paid by employer. (The motor car is owned and driven by Mr. Thomas. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee)

Annual premium paid by A Ltd. towards a personal accident policy on his life ₹ 5,000.

He was retrenched by his previous employer M/s B Ltd. after continuous service of 20 years. He received a compensation of ₹ 15 Lakhs. His Basic Salary and Dearness Allowance at the time of retrenchment was ₹ 25,000 p.m. and ₹ 18,000 p.m. respectively.

Compute the amount taxable under the head salary for the Assessment Year 2018-19. (MTP 10 Marks, Aug'18)

Answer 6

Computation of Income taxable under the head "Salaries" for the A.Y. 2018-19

Particulars	₹	₹	₹
Basic Salary (₹ 20,000 x 12)			2,40,000
Dearness Allowance (₹ 15,000 x 12)			1,80,000
House Rent Allowance Received		2,40,000	
Less: Exempt under section 10(13A)		2,10,000	30,000
Least of the following would be exempt			
House Rent Allowance Received	2,40,000		
Rent paid (-) 10% of salary [(₹ 25,000 x 12) - 10% x 4,20,000]	2,58,000		
50% of salary, since place of residence is Chennai (50% x 4,20,000)	2,10,000		

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Telephone bills paid by A Ltd. for the telephone installed at his Residence [Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite]			-
Annual premium paid by A. Ltd. for towards personal accident policy on his life			-
Motor car owned and driven by employee, running and maintenance charges borne by the employer [₹ 30,600 - ₹ 21,600 (i.e., ₹ 1,800 × 12)]			9,000
Retrenchment compensation received		15,00,000	
Less: Exempt under section 10(10B)		4,96,154	10,03,846
Least of the following would be exempt			
Compensation actually received	15,00,000		
Monetary Limit	5,00,000		
Amount calculated as per section 25F of Industrial Disputes Act $\{15/26 \times [(25,000 + 18,000) \times 3] / 3 \times 20\}$	4,96,154		
Salary income chargeable to tax			14,62,846
Less- Standard Deduction (Actual salary or Rs 50,000 whichever is lower) (As per amendment)			50,000
Net Salary Income			14,12,846

Question 7

Mr. Kashyap, aged 38 years, is entitled to a salary of ₹ 40,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹ 8,000 per month. The rent for the hired accommodation was ₹ 6,500 per month at New Delhi. Advice Mr. Kashyap whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kashyap does not opt for the provisions of section 115BAC. (MTP 7 Marks, Nov'21)

Answer 7

Computation of tax liability of Kashyap under both the options

Particulars	Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 40,000 × 12 Months)	4,80,000	4,80,000
Perquisite value of rent-free accommodation (15% of ₹ 4,80,000)	N.A.	72,000
House rent Allowance (₹ 8,000 × 12 Months) ₹ 96,000		
Less: Exempt u/s 10(13A) – least of the following -		
- 50% of Basic Salary ₹ 2,40,000		
- Actual HRA received ₹ 96,000		
- Rent paid less 10% of salary ₹ 30,000 ₹30,000	66,000	
Gross Salary	5,46,000	5,52,000
Less: Standard deduction u/s 16(IA)	50,000	50,000

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Net Salary	4,96,000	5,02,000
Less: Deduction under Chapter VI-A	-	-
Total Income	4,96,000	5,02,000
Tax on total income	12,300	12,900
Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,300, since total income does not exceed ₹ 5,00,000	12,300	Nil
	Nil	12,900
Add: Health and Education cess@4%	Nil	516
Total tax payable	Nil	13,416
Tax Payable (Rounded off)	Nil	13,420

Cash Flow Statement

Particulars	Option I - HRA	Option II - RFA
Inflow: Salary	5,76,000	4,80,000
Less: Outflow: Rent paid	(78,000)	-
Tax on total income	Nil	(13,420)
Net Inflow	4,98,000	4,66,580

Since the net cash inflow under Option I (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kashyap to avail Option I, i.e., House Rent Allowance

Question 8

You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2024:

- He retired on 31-12-2023 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- He is receiving ₹ 5,000 as pension. On 1.2.2024, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
- The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution. (MTP 7 Marks Oct'21)

Answer 8

Computation of income under the head "Salaries"
of Mr. Raja for the A.Y.2024-25 under default tax regime

Particulars		
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months [Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	

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Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ` 3,50,000		
(ii) 15 days salary for every year of completed service [$15/26 \times ` 25,000 \times 26$] = ` 3,75,000		
(iii) Notified limit = ` 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) ` 25,00,000		
(ii) Leave salary actually received ` 3,15,000		
(iii) ` 2,50,000, being 10 months' salary x ` 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired $375/30 \times ` 25,000 = ` 3,12,500$ [Leave Due = Leave allowed – Leave taken] = 750 (30 days per year × 25 years) – 375 days (15 days × 25) = 375 days]		
Uncommuted Pension received [$` 5,000 \times 1$] + ($` 5,000 \times 2 \times 40%$)		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A)		
$1/3 \times ` 3,00,000 / 60\% \times 100\%$	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ` 5,000 in aggregate during the previous year is exempt]		Nil
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		4,86,333

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Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less] [Allowable under default tax regime]		50,000
Net Salary		4,36,333

Question 9

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2024:

(i)	Basic salary upto 31.10.2023	Rs. 50,000 p.m.
	Basic salary from 01.11.2023	Rs. 60,000 p.m.

Note: Salary is due and paid on the last day of every month.

- (ii) Dearness allowance @ 40% of basic salary.
- (iii) Bonus equal to one month salary. Paid in October 2023 on basic salary plus dearness allowance applicable for that month.
- (iv) Contribution of employer to recognized provident fund account of the employee @16% of basic salary.
- (v) Professional tax paid Rs. 2,500 of which Rs. 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop Rs. 45,000 and computer Rs. 35,000 were acquired by the company on 01.12.2023.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2023 meant for both official and personal use. Repair and running expenses of Rs. 45,000 from 01.11.2023 to 31.03.2024, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class)
 - (i) reimbursed by the employer Rs. 30,000 for adults and Rs. 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law. Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2024-25 assuming he has not opted for the provisions of section 115BAC. (MTP 7 Marks Oct'19)

Answer 9

Computation of Taxable Salary of Mr. Balaji for A.Y. 2024-25

Particulars		Rs.
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]		6,50,000
Dearness Allowance (40% of basic salary)		2,60,000
Bonus (₹ 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 (See Note 2)		26,000
Professional tax paid by employer		2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)		12,000
Gross Salary		10,20,000
Less: Deduction under section 16		
Standard deduction u/s 16(ia)	Rs. 50,000	
Professional tax u/s 16(iii) (See Note 6)	Rs. 2,500	52,500

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Taxable Salary	9,67,500
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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. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) 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 01.11.2023, therefore the perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption under section 10(5) on the entire amount of Rs. 75,000 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.
He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
6. 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. Balaji. As per section 16(iii), a deduction from the salary is provided 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. 2,500 is provided from salary.

Question 10

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2023-24:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine	

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cubic capacity more than 1.6 litres). All expenses are met by the employer
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]

7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2024-25 if she pays tax under default tax regime. (MTP 6 Marks Sep'22)

Answer 10

Computation of income chargeable under the head "Salaries" of Ms. Akansha for A.Y.2024-25 under default tax regime

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [$(2,400 + 900) \times 12$] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	12,26,600
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia)	50,000
Income chargeable under the head "Salaries"	11,76,600

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member

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of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,71,600, respectively.

Question 11

Mr. Neural, aged 45 years, working in Ashiyana Pvt. Ltd. provides the following details pertaining to the financial year 2019-20:

Particulars	₹
Basic salary	7,20,000
Dearness allowance (40% of basic pay) (50% of D.A. forms part of retirement benefits)	-
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	10,000
Profession tax (of this, 50% paid by employer)	3,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	15,000
Life insurance premium of Neeraj paid by employer	40,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a motor car, which was provided to the assessee, both for official and personal use. All repair and maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]	5,000

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Neeraj for the assessment year 2020-21 (MTP 7 Marks, May'20)

Answer 11

Computation of income chargeable under the head "Salaries" of Mr. Neeraj for A.Y.2020-21

Particulars	₹
Basic Salary	7,20,000
Dearness allowance	2,88,000
Commission	50,000
Entertainment allowance	7,500

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Medical expenses reimbursed by the employer	10,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	1,500
Health insurance premium of ₹9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) as per Rule 3(7)(iv) [See Note below]	15,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	40,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee for both official and personal purposes – perquisite value would be ₹21,600 [₹1,800 × 12] as per Rule 3(2)	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes.	5,000
Gross Salary	11,58,600
Less: Deductions under section 16 Standard deduction u/s 16(ia)	50,000
Entertainment allowance (deduction under section 16(ii) not allowable since Mr. Neeraj is not a Government employee)	Nil
Professional tax paid allowable as deduction as per section 16(iii)	3,000
Income chargeable under the head "Salaries"	<u>11,05,600</u>

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 15,000 was received by Mr. Neeraj from his employer on the occasion of his birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 15,000 is liable to tax as perquisite.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 10,000.

In such case, the gross salary and net salary would be, ₹ 11,53,600 and ₹11,00,600, respectively.

Question 12

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

- (I) **She was appointed on 01-03-2017 in the scale of ₹ 20,000 - ₹ 2,500 - ₹ 35,000.**
- (ii) **She is paid dearness allowance (which forms part of salary for retirement benefits) @30% of basic pay and bonus equivalent to two month's basic pay as at the end of the year.**
- (iii) **She receives ₹ 2,000 per month as transport allowance (for commuting between place of residence and office) and ₹ 4,000 each as hostel allowance for three children.**

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- (iv) She contributes 15% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.
- (v) Lunch provided by the company during office hours Cost to the employer ₹ 10,000
- (vi) Rent free unfurnished accommodation provided by the company for which the company pays ₹ 60,000 per annum.
- (vii) The Company reimbursed the medical treatment bill of ₹ 35,000 of her son, who is dependent on her.
- (viii) A gift voucher of ₹ 6,000 was given on the occasion of her marriage anniversary. It is given by the company to all employees above certain grade.
- (ix) Facility of laptop and computer was provided to Mrs. Anjali for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2016.
- (x) Professional tax paid by the company ₹ 2,000 Compute the amount of salary chargeable to tax in the hands of Mrs Anjali for A.Y. 2018-19. (MTP 10 Marks, March'18)

Answer 12

Computation of taxable salary of Mrs Anjali for A.Y. 2018-19

Particulars	₹
Basic pay [(₹20,000×11) + (₹22,500×1)] = ₹2,20,000 + ₹22,500	2,42,500
Dearness allowance [30% of basic pay]	72,750
Bonus [₹22,500 × 2]	45,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15% - 12% = 3% of ₹3,15,250)	9,458
Taxable allowances	
Transport allowance (₹2,000 x 12)	24,000
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹1,600 p.m.	19,200
(As per amendment no transport allowance allowed)	4,800
Hostel allowance (₹ 4,000 x 3)	12,000
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹300 p.m. per child maximum for two children	7,200
Taxable perquisites	
Rent-free accommodation [See Note 1 below]	55,478
	58,358
Medical reimbursement (₹35,000 - ₹15,000) [See Note 2 below] (As per amendment no ₹15,000 deduction withdrawn)	20,000
	35,000
Gift voucher [See Note 3 below]	6,000
Value of free lunch facility [See Note 4 below]	-
Professional tax paid by the company [See Note 6 below]	2,000
Gross Salary	4,99,866
Less- Standard Deduction (Actual salary or Rs 50,000 whichever is lower) (As per amendment)	50,000
Less: Professional tax paid by the company [Section 16(iii)]	2,000
Salary chargeable to tax	4,47,866

Notes:

- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.
For the purposes of valuation of rent free house, salary includes:

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(I)	Basic salary	2,42,500
(ii)	Dearness allowance	72,750
(iii)	Bonus	45,000
(iv)	Transport allowance	4,800 (24,000)
(v)	Hostel allowance	4,800
Tot		3,89,050

15% of salary = ₹3,89,050 × 15/100 = ₹ **58,358** Value of rent-free house will be

- Actual amount of lease rental paid by employer (i.e. ₹ 60,000) or
- 15% of salary (i.e., ₹ 58,358), whichever is lower.

Therefore, the perquisite value is ₹ 58,358.

2. Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is exempt to the extent of ₹ 15,000. Therefore, in this case, the balance of ₹ 20,000 (i.e., ₹ 35,000 – ₹ 15,000) is a taxable perquisite.

As per amendment the ₹ 15,000 allowance is withdrawn. Hence full ₹ 35,000 will be added.

3. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000. Therefore, entire amount of ₹ 6,000 is liable to tax as perquisite.

Alternative View: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2011 that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹1,000.

4. Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed ₹50 per meal.
5. 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.
6. Professional tax paid by employer on behalf of employee is a taxable perquisite, hence, included in gross salary as a perquisite.

Question 13

Ms. Aashima is a Finance manager in ABC limited. She has given the details of her income for the P.Y. 2021-22. You are required to compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Aashima from the details given below:

Basic Salary ₹ 60,000 p.m.

Dearness Allowance ₹ 24,000 p.m. (40% of which forms part of retirement benefits)

Bonus ₹ 21,000 p.m.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Aashima from 1st October, 2021 which is used for both official and personal purposes. Repair and running expenses of ₹ 60,000 were fully met by the company. The motor car was self-driven by the employee.

Professional tax paid ₹ 2,500 out of which ₹ 2,000 was paid by the employer. Her employer has provided her with an accommodation on 1st April 2021 at a concessional rent. The house was taken on lease by ABC Ltd. for ₹ 12,000 p.m. Ms. Aashima occupied the house from 1st December, 2021, ₹ 4,800 p.m. is recovered from the salary of Ms. Aashima. The employer gave her a gift voucher of ₹ 8,000 on her birthday. Ms. Aashima contributes 15% of her salary (Basic Pay plus DA) towards recognised provident fund and the company contributes the same amount. The company pays medical insurance premium to effect insurance

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on the health of Ms. Aashima ₹ 20,000. (MTP 7 Marks March 22)

Answer 13

Computation of income chargeable to tax under the head "Salaries" in the hands
of Ms. Aashima for A.Y.2022-23

Particulars	₹
Basic Salary [₹ 60,000 x 12]	7,20,000
Dearness allowance [₹ 24,000 x 12]	2,88,000
Bonus [₹ 21,000 x 12]	2,52,000
Perquisite of Motor car (₹2,400 × 6 months) [See Note 1]	14,400
Professional tax paid by employer [See Note 2]	2,000
Perquisite value in respect of concessional rent [See Note 3]	28,800
Gift voucher given by employer on Ms. Aashima's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [See Note 4]	8,000
Employer's contribution to recognized provident fund in excess of 12% of salary = 15% x [(₹ 60,000 + ₹ 24,000) x 12] – 12% x {(₹ 60,000 + ₹ 9,600 (being 40% of ₹ 24,000)) x 12} = 1,51,200 – 1,00,224 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	50,976
Medical insurance premium of ₹ 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite	-
Gross salary	13,64,176
Less: Deduction under section 16	
Standard deduction under section 16(ia)	50,000
Professional tax u/s 16(iii) [See Note 2]	2,500
52,500	
Salary chargeable to tax	13,11,676

Notes:

1. In case a motor car (engine cubic capacity more than 1.6 litres) owned by employer is provided to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer, the value of perquisite would be ₹ 2,400 p.m. The car was provided to Ms. Aashima on 1.10.2021, therefore, the perquisite value has been calculated for 6 months.
2. 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 ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Ms. Aashima. As per section 16(iii), a deduction from the salary is provided 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 ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.
3. Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 15% of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite. Actual rent paid by the employer from 1.12.2021 to 31.3.2022 = ₹ 48,000 [₹ 12,000 x 4 months] 15% of salary = ₹ 54,360 [15% x (₹ 60,000 + ₹ 9,600 + ₹ 21,000) x 4 months] Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus Lower of the above is ₹ 48,000 which is to be reduced by the rent recovered from the employee. Hence, the perquisite value of concessional rent = ₹ 48,000 – ₹ 19,200 [₹ 4,800 x 4 months] = ₹ 28,800

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4. As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 8,000 was received by Ms. Aashima from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 8,000 is liable to tax as perquisite. The above solution has been worked out accordingly. Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 3,000. The salary chargeable to tax, in this case, would be ₹ 13,06,676.

Question 14

Ms. Suhaani, a resident individual, aged 33 years, is an assistant manager of Daily Needs Ltd. She is getting a salary of ₹ 48,000 per month. During the previous year 2018-19, she received the following amounts from her employer.

- (i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
- (ii) Bonus for the previous year 2017-18 amounting to ₹ 52,000 was received on 30th November, 2018.
- (iii) Fixed Medical allowance of ₹ 48,000 for meeting medical expenditure.
- (iv) She was also reimbursed the medical bill of her father dependent on her amounting to ₹ 4,900.
- (v) Ms. Suhaani was provided;
 - a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2016 at ₹ 35,000.
 - a domestic servant at a monthly salary of ₹ 5,000 which was reimbursed by her employer.
- (vi) Daily Needs Ltd. allotted 700 equity shares in the month of October 2018 @ ₹ 170 per share against the fair market value of ₹ 280 per share on the date of exercise of option by Ms. Suhaani. The fair market value was computed in accordance with the method prescribed under the Act.
- (vii) Professional tax ₹ 2,200 (out of which ₹ 1,400 was paid by the employer).

Compute the Income under the head "Salaries" of Ms. Suhaani for the assessment year 2019-20.(RTP May '20)

Answer 14

Computation of Income under the head "Salaries" in the hands of Ms. Suhaani for the A.Y. 2019-20

Particulars	₹
Basic Salary [₹ 48,000 x 12]	5,76,000
Dearness allowance [10% of basic salary]	57,600
Bonus [Taxable in the P.Y. 2018-19, since it is taxable on receipt basis]	52,000
Fixed Medical Allowance [Taxable]	48,000
Reimbursement of Medical expenditure incurred for her father [Fully taxable from A.Y. 2019-20, even though father is included in the meaning of "family" on account of standard deduction being introduced in lieu of reimbursement of medical expenditure].	4,900
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil

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Reimbursement of salary of domestic servant [₹ 5,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	60,000
Value of equity shares allotted [700 equity shares x ₹ 110 (₹ 280, being the fair market value – ₹ 170, being the amount recovered)]	77,000
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,400
Gross Salary	8,76,900
Less: Deduction under section 16	
Professional tax paid	2,200
Standard Deduction (Lower of ₹ 40,000 or amount of salary) (As per amendment Rs. 50,000)	40,000 50,000
Taxable Salary	8,34,700 8,24,700

Question 15

Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

Allowance received by an employee Mr. Ram working in a transport system at ₹ 12,000 p.m. which has been granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer. (PYP 2 Marks, Nov'18)

Answer 15

	Chargeability	Amount liable to tax (₹)	Reason
(I)	Partly taxable	43,200	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 any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 8,400 per month being, 70% of ₹ 12,000) or ₹ 10,000 per month, whichever is less. Hence, 1,00,800 (i.e., ₹ 8,400 x 12) is exempt. Balance ₹ 43,200 (₹ 1,44,000 – ₹ 1,00,800) is taxable in the hands of Mr. Ram.

Question 16

Mr. B is a sales manager in PQR Ltd. During F.Y. 2021-22 he has received the following towards his salary and allowances/perquisites;

- Basic pay ₹ 85,000 per month upto December 2021 and thereafter an increase of ₹ 2,000 per month.**
- Dearness allowance 40% of basic pay forming part of retirement benefits.**
- Bonus 1 month basic pay based on the salary drawn during January month every year.**
- He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.**
- Travelling allowance of ₹ 5,000 per month towards on duty tours.**
- Research and training allowance ₹ 3,000 per month.**
- Children education allowance of ₹ 600 per month, per child for his 2 sons**

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and 1 daughter.

- (viii) Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹ 2,00,000 was provided from 1st October, 2021.
- (ix) Reimbursement of medical expenses on his treatment in private hospital - ₹ 15,000, medical allowance ₹ 1,500 per month. Company has paid premium on medical policy purchased on his health ₹ 12,500.

You are required to:

- Compute the income chargeable to tax under the head "Income from Salary", assuming that he does not opt for the provisions under section 115BAC.
- What will be the income under the head "Salaries", if he opts for the provisions under section 115BAC? (PYP 8 Marks Nov '22)

Answer 16

- I. Computation of income chargeable to tax under the head "Salaries" for A.Y.2022-23, if Mr. B does not opt for the provisions of section 115BAC

Particulars	₹	₹
Basic Pay [₹ 85,000 x 9 + ₹ 87,000 x 3]		10,26,000
Dearness Allowance [₹ 10,26,000 x 40%]		4,10,400
Bonus		87,000
Travelling allowance [Exempt, since provided towards duty tours]		-
Research and training allowance [₹ 3,000 x 12]		36,000
Medical allowance [₹ 1500 x 12]		18,000
Children Education allowance [₹ 600 x 12 x 3]	21,600	
Less: Exempt [₹100 x 12 x 2]	2,400	19,200
Salary (for the purpose of valuation of Rent-free accommodation)		15,96,600
Value of Rent-free accommodation [15% of ₹ 15,96,600]	2,39,490	
Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]	10,000	2,49,490
Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital]		15,000
Health insurance premium paid by PQR Ltd. [Exempt]		-
Employers' contribution to RPF in excess of 12% of salary = 2% of ₹ 14,36,400 (₹ 10,26,000 + ₹ 4,10,400)		28,728
Gross Salary		18,89,818
Less: Deductions under section 16		
Standard deduction		50,000
Income chargeable under the head "Salaries"		18,39,818

- II. Computation of income chargeable to tax under the head "Salaries" for A.Y.2022-23, if Mr. B opts for the provisions of section 115BAC

Income chargeable under the head "Salaries"		18,39,818
Add: Exemption in respect of children		2400

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education		
allowance [Not allowable as per section 115BAC]		
Add: Standard deduction [Not allowable as per section 115BAC]		50,000
		18,92,218
Less: Value of rent-free accommodation (As per regular provisions)		2,49,490
		16,42,728
Add: Value of Rent-free accommodation [15% of ₹ 15,99,000 (₹ 15,96,600 (as calculated above) + ₹ 2,400)]	2,39,850	
Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]		2,49,850
	10,000	
Income chargeable under the head "Salaries"		18,92,578

¹ It is assumed that he has fully expended the amount

Question 17

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2024:

(i)	Basic salary upto 31.10.2023	Rs. 50,000 p.m.
	Basic salary from 01.11.2023	Rs. 60,000 p.m.

Note: Salary is due and paid on the last day of every month.

- (ix) Dearness allowance @ 40% of basic salary.
- (x) Bonus equal to one month salary. Paid in October 2023 on basic salary plus dearness allowance applicable for that month.
- (xi) Contribution of employer to recognized provident fund account of the employee @16% of basic salary.
- (xii) Professional tax paid Rs. 2,500 of which Rs. 2,000 was paid by the employer.
- (xiii) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop Rs. 45,000 and computer Rs. 35,000 were acquired by the company on 01.12.2023.
- (xiv) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2023 meant for both official and personal use. Repair and running expenses of Rs. 45,000 from 01.11.2023 to 31.03.2024, were fully met by the employer. The motor car was self-driven by the employee.
- (xv) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class)

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- (ii) reimbursed by the employer Rs. 30,000 for adults and Rs. 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law. Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2024-25 assuming he has not opted for the provisions of section 115BAC. (PYP 6 Marks, Nov'18)

Answer 17

Computation of Taxable Salary of Mr. Balaji for A.Y. 2024-25

Particulars	Rs.
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 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 (See Note 2)	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)	12,000
Gross Salary	10,20,000
Less: Deduction under section 16	
Standard deduction u/s 16(ia)	Rs. 50,000
Professional tax u/s 16(iii) (See Note 6)	Rs. 2,500
Taxable Salary	9,67,500

Notes:

- 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.
- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
- As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) 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 01.11.2023, therefore the perquisite value has been calculated for 5 months.
- Mr. Balaji can avail exemption under section 10(5) on the entire amount of Rs. 75,000 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.
He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- 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. Balaji. As per section 16(iii), a deduction from the salary is provided 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. 2,500 is provided from salary.

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Question 18

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2023-24:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2024-25 if she pays tax under default tax regime. (RTP Nov '20)

Answer 18

Computation of income chargeable under the head "Salaries" of Ms. Akansha for A.Y.2024-25 under default tax regime

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000

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Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [(2,400+ 900) ×12] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	12,26,600
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia)	50,000
Income chargeable under the head "Salaries"	11,76,600

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,71,600, respectively.

Question 19

Mr. Neural, aged 45 years, working in Ashiyana Pvt. Ltd. provides the following details pertaining to the financial year 2019-20:

Particulars	₹
Basic salary	7,20,000
Dearness allowance (40% of basic pay) (50% of D.A. forms part of retirement benefits)	-
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	10,000
Profession tax (of this, 50% paid by employer)	3,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	15,000
Life insurance premium of Neeraj paid by employer	40,000

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Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a motor car, which was provided to the assessee, both for official and personal use. All repair and maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]	5,000

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Neeraj for the assessment year 2020-21 (RTP Nov '18)

Answer 19

Computation of income chargeable under the head "Salaries" of Mr. Neeraj for A.Y.2020-21

Particulars	₹
Basic Salary	7,20,000
Dearness allowance	2,88,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	10,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	1,500
Health insurance premium of ₹9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) as per Rule 3(7)(iv) [See Note below]	15,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	40,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee for both official and personal purposes – perquisite value would be ₹21,600 [₹1,800 × 12] as per Rule 3(2)	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes.	5,000
Gross Salary	11,58,600
Less: Deductions under section 16	
Standard deduction u/s 16(ia)	50,000
Entertainment allowance (deduction under section 16(ii) not allowable since Mr. Neeraj is not a Government employee)	Nil
Professional tax paid allowable as deduction as per section 16(iii)	3,000
Income chargeable under the head "Salaries"	11,05,600

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule

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3(7)(iv). In this case, the gift voucher of ₹ 15,000 was received by Mr. Neeraj from his employer on the occasion of his birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 15,000 is liable to tax as perquisite.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 10,000.

In such case, the gross salary and net salary would be, ₹ 11,53,600 and ₹11,00,600, respectively.

Section - B

Question 1

Mr. Mohit is employed with XY Ltd. on a basic salary of Rs. 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of Rs. 6,000 p.m. which was increased to Rs. 7,000 p.m. with effect from 01.01.2022. He also got an increment of Rs. 1,000 p.m. in his basic salary with effect from 01.02.2022. Rent paid by him during the previous year 2023-24 is as under:

April and May, 2023 - Nil, as he stayed with his parents
June to October, 2023 - Rs. 6,000 p.m. for an accommodation in Ghaziabad
November, 2023 to March, 2024 - Rs. 8,000 p.m. for an accommodation in Delhi
Compute his gross salary for assessment year 2024-25 assuming he has not opted for the provisions of section 115BAC.

Answer 1

Computation of gross salary of Mr. Mohit for A.Y. 2024-25

Particulars	Rs.
Basic salary [(₹ 10,000 × 10) + (₹ 11,000 × 2)]	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance (See Note below)	21,300
Gross Salary	2,65,300

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period					

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(Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹ 8,000×1)	16,000 (₹ 8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹ 6,000×2)	30,000 (₹ 6,000×5)	12,000 (₹ 6,000×2)	7,000 (₹ 7,000×1)	14,000 (₹ 7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (-) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2021) 50% of salary (Residence at Delhi–Nov, 21 - March, 22)	-	30,000 (40% × Rs. 75,000)	15,000 (50% ×Rs. 30,000)	7,500 (50% ×Rs. 15,000)	16,500 (50% ×Rs. 33,000)
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA [Actual HRA (-) Exempt HRA] (A-B)	12,000	7,500	Nil	500	1,300

Taxable HRA (total) = Rs. 12,000 + Rs. 7,500 + Rs. 500 + Rs. 1,300 = Rs. 21,300

Question 2

Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2023-24:

	Particulars	Rs.
1	Reimbursement of following medical expenses incurred by Ms. Rakhi	
	(A) On treatment of her self-employed daughter in a private clinic	4,000
	(B) On treatment of herself by family doctor	8,000
	(C) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,95,000
6	Expenses in relation to foreign travel of Rakhi and her son for medical treatment	1,20,000

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	Note - Limit prescribed by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per financial year under liberalized remittance scheme.	
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Examine the taxability of the above benefits and allowances in the hands of Rakhi.

Answer 2

Tax treatment of medical benefits, allowances and Mediciclaim premium in the hands of Ms. Rakhi for A.Y. 2024-25

Particulars	
1.	Reimbursement of medical expenses incurred by Ms. Rakhi
(A)	The amount of Rs. 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite.
(B)	The amount of Rs. 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.
(C)	The amount of Rs. 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite.
	The aggregate sum of Rs. 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of Rs. 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of Rs. 2,000 per month i.e., Rs. 24,000 p.a. is a fully taxable allowance.
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of Rs. 5,000 on her son's treatment in a hospital maintained by the Government is a tax free perquisite.

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5. As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions –
6. (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India [₹ 1,05,000, in this case];
- (ii) Expenditure on travel and stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case].
- The conditions subject to which the above expenditure would be exempt are as follows –
- (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;
- (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed Rs. 2 lakh.
- Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed Rs. 2 lakh.

Question 3

Mr. X is employed with AB Ltd. on a monthly salary of Rs. 25,000 per month and an entertainment allowance and commission of Rs. 1,000 p.m. each. The company provides him with the following benefits:

- A company owned accommodation is provided to him in Delhi. Furniture costing Rs. 2,40,000 was provided on 1.8.2023.**
- A personal loan of Rs. 5,00,000 on 1.7.2023 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest on 1.4.2023 was 12.75% p.a.)**
- His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for Rs. 60,000 on 1.5.2018. The motor cycle was finally sold to him on 1.8.2023 for Rs. 30,000.**
- Professional tax paid by Mr. X is Rs. 2,000.**

Compute the income from salary of Mr. X for the A.Y. 2024-25 assuming Mr. X has not opted for the provisions of section 115BAC.

Answer 3

Computation of Income from Salary of Mr. X for the A.Y. 2024-25

Particulars	Rs.	Rs.
Basic salary [₹25,000 × 12]		3,00,000
Commission [₹1,000 × 12]		12,000
Entertainment allowance [₹1,000 × 12]		12,000
Rent free accommodation [Note 1]	48,600	
Add : Value of furniture [₹2,40,000 × 10% p.a. for 8 months]	16,000	64,600

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Paper 3 - Taxation

Interest on personal loan [Note 2]		22,500
Use of motor cycle [₹60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		4,25,100
Less : Deduction under section 16		
Under section 16(ia) – Standard deduction	50,000	
Under section 16(iii) - Professional tax paid	2,000	52,000
Income from Salary		3,73,100

Note 1: Value of rent free unfurnished accommodation = 15% of salary or the relevant period

= 15% of (₹ 3,00,000 + Rs. 12,000 + Rs. 12,000) = Rs. 48,600

Note 2: Value of perquisite for interest on personal loan = [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = Rs. 22,500

Note 3: Depreciated value of the motor cycle = Original cost – Depreciation @ 10% p.a. for 3 completed years. = Rs. 60,000 – (₹60,000 × 10% p.a. × 3 years) = Rs. 42,000.
Perquisite = Rs. 42,000 – Rs. 30,000 = Rs. 12,000.

Question 4

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2024:

(i)	Basic salary upto 31.10.2023	Rs. 50,000 p.m.
	Basic salary from 01.11.2023	Rs. 60,000 p.m.

Note: Salary is due and paid on the last day of every month.

- (xvi) Dearness allowance @ 40% of basic salary.
- (xvii) Bonus equal to one month salary. Paid in October 2023 on basic salary plus dearness allowance applicable for that month.
- (xviii) Contribution of employer to recognized provident fund account of the employee @16% of basic salary.
- (xix) Professional tax paid Rs. 2,500 of which Rs. 2,000 was paid by the employer.
- (xx) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop Rs. 45,000 and computer Rs. 35,000 were acquired by the company on 01.12.2023.
- (xxi) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2023 meant for both official and personal use. Repair and running expenses of Rs. 45,000 from 01.11.2023 to 31.03.2024, were fully met by the employer. The motor car was self-driven by the employee.
- (xxii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer Rs. 30,000 for adults and Rs. 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law. Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2024-25 assuming he has not opted for the provisions of section 115BAC.

Answer 4

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Paper 3 - Taxation

Computation of Taxable Salary of Mr. Balaji for A.Y. 2024-25

Particulars	Rs.
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 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 (See Note 2)	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)	12,000
Gross Salary	10,20,000
Less: Deduction under section 16	
Standard deduction u/s 16(ia)	Rs. 50,000
Professional tax u/s 16(iii) (See Note 6)	Rs. 2,500
Taxable Salary	9,67,500

Notes:

13. 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.
14. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
15. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
16. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) 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 01.11.2023, therefore the perquisite value has been calculated for 5 months.
17. Mr. Balaji can avail exemption under section 10(5) on the entire amount of Rs. 75,000 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.
He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
18. 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. Balaji. As per section 16(iii), a deduction from the salary is provided 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. 2,500 is provided from salary.

Question 5

From the following details, find out the salary chargeable to tax for the A.Y. 2024-25 assuming he has not opted for the provisions of section 115BAC- Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2023 in the scale of Rs. 20,000 - ₹ 1,000 - Rs. 30,000. He is paid 10% D.A. &

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Paper 3 - Taxation

Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

He is provided free housing facility which has been taken on rent by the company at Rs. 10,000 per month. He is also provided with following facilities:

- (i) **Facility of laptop costing Rs. 50,000.**
- (ii) **Company reimbursed the medical treatment bill of his brother of Rs. 25,000, who is dependent on him.**
- (iii) **The monthly salary of Rs. 1,000 of a house keeper is reimbursed by the company.**
- (iv) **A gift voucher of Rs. 10,000 on the occasion of his marriage anniversary.**
- (v) **Conveyance allowance of Rs. 1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.**
- (vi) **He is provided personal accident policy for which premium of Rs. 5,000 is paid by the company.**
- (vii) **He is getting telephone allowance @ ₹ 500 per month.**

Answer 5

Computation of taxable salary of Mr. X for A.Y. 2024-25

Particulars	Rs.
Basic pay [(₹20,000×9) + (₹21,000×3)] = Rs. 1,80,000 + Rs. 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15%-12% =3% of Rs.2,67,300) [See Note 1 below]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	44,145
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	3,93,464
Less: Deduction under section 16(ia) – Standard deduction	50,000
Salary income chargeable to tax	3,43,464

Notes:

1. Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

- (i) Basic salary i.e., Rs. 2,43,000
 - (ii) Dearness allowance (assuming that it is included for calculating retirement benefits) i.e. Rs. 24,300
 - (iii) Bonus i.e., Rs. 21,000
 - (iv) Telephone allowance i.e., Rs. 6,000
- Therefore, salary works out

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to Rs. 2,43,000 + Rs. 24,300 + Rs. 21,000 + Rs. 6,000 = Rs. 2,94,300.
 15% of salary = Rs. 2,94,300 × 15/100 = Rs. 44,145
 Value of rent-free house = Lower of rent paid by the employer
 (i.e. ₹ 1,20,000) or 15% of salary (i.e., Rs. 44,145).

Therefore, the perquisite value is Rs. 44,145.

3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below Rs. 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of Rs. 5,000.
 Therefore, the entire amount of Rs. 10,000 is liable to tax as perquisite.
Note - An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable. In such a case, the value of perquisite would be Rs. 5,000.
6. Premium of Rs. 5,000 paid by the company for personal accident policy is not liable to tax.

Question 6

You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2024:

- (G) He retired on 31-12-2023 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- (H) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- (I) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- (J) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- (K) He is receiving ₹ 5,000 as pension. On 1.2.2024, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
- (L) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

Answer 6

Computation of income under the head "Salaries"
 of Mr. Raja for the A.Y. 2024-25 under default tax regime

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months [Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt under section		

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10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service $[15/26 \times ₹ 25,000 \times 26] = ₹ 3,75,000$		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary $\times ₹ 25,000$		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired $375/30 \times ₹ 25,000 = ₹ 3,12,500$ [Leave Due = Leave allowed – Leave taken] $= 750 (30 \text{ days per year} \times 25 \text{ years}) - 375 \text{ days} (15 \text{ days} \times 25)$ $= 375 \text{ days}$		
Uncommuted Pension received $[(₹ 5,000 \times 1) + (₹ 5,000 \times 2 \times 40\%)]$		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A)		
$1/3 \times ₹ 3,00,000 / 60\% \times 100\%$	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Nil
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		4,86,333
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less] [Allowable under default tax regime]		50,000
Net Salary		4,36,333

Question 7

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2023-24:

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Paper 3 - Taxation

Particulars	
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer	45,000
Children of the assessee are also using the Laptop at home]	
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use.	
Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2024-25 if she pays tax under default tax regime.

Answer 7

Computation of income chargeable under the head "Salaries" of Ms. Akansha for A.Y.2024-25 under default tax regime

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil

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Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [$(2,400 + 900) \times 12$] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available Gross Salary	7,000
	12,26,600
Less: Deductions under section 16 - Standard Deduction as per section 16(ia)	50,000
Income chargeable under the head "Salaries"	11,76,600

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,71,600, respectively.

Question 8: illustration

Mr. Raj Kumar has the following receipts from his employer:

- (1) **Basic pay** Rs. 40,000 p.m.
- (2) **Dearness allowance (D.A.)** Rs. 6,000 p.m.
- (3) **Commission** Rs. 50,000 p.a.
- (4) **Motor car for personal use (expenses met by the employer)** Rs. 1,500 p.m.
- (5) **House rent allowance** Rs. 15,000 p.m.

Find out the amount of HRA eligible for exemption to Mr. Raj Kumar assuming that he paid a rent of Rs. 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits. Mr. Raj Kumar exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 8

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HRA received Rs. 1,80,000
 Less: Exempt under section 10(13A) [Note] Rs. 1,36,800
Taxable HRA Rs. 43,200

Note: Exemption shall be least of the following three limits:

- the actual amount received ($\text{₹ } 15,000 \times 12$) = Rs. 1,80,000
- excess of the actual rent paid by the assessee over 10% of his salary = Rent Paid (-) 10% of salary for the relevant period = ($\text{₹ } 16,000 \times 12$) (-) 10% of [$\text{₹ } 40,000 + \text{₹ } 6,000$] $\times 12$ = Rs. 1,92,000 - Rs. 55,200 = Rs. 1,36,800
- 40% salary as his accommodation is situated at Kanpur = 40% of [$\text{₹ } 40,000 + \text{₹ } 6,000$] $\times 12$ = Rs. 2,20,800

Note: For the purpose of exemption under section 10(13A), salary includes dearness allowance only when the terms of employment so provide, but excludes all other allowances and perquisites.

Question 9: illustration

Mr. Srikant has two sons. He is in receipt of children education allowance of Rs. 150 p.m. for his elder son and Rs. 70 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances:

Transport allowance : ₹ 1,800 p.m.
Tribal area allowance : Rs. 500 p.m.

Compute his taxable allowances.

Answer 9

Taxable allowance in the hands of Mr. Srikant is computed as under - Children Education Allowance:

Elder son [$(\text{₹ } 150 - \text{Rs. } 100) \text{ p.m.} \times 12 \text{ months}$]	= Rs. 600	
Younger son [$(\text{₹ } 70 - \text{Rs. } 70) \text{ p.m.} \times 12 \text{ months}$]	= Nil	Rs. 600
Transport allowance ($\text{₹ } 1,800 \text{ p.m.} \times 12 \text{ months}$)		Rs. 21,600
Tribal area allowance [$(\text{₹ } 500 - \text{Rs. } 200) \text{ p.m.} \times 12 \text{ months}$]		<u>Rs. 3,600</u>
Taxable allowances		Rs. 25,800

Taxable allowances Rs. 25,800

If Mr. Srikant pays tax under default tax regime under section

115BAC Children Education Allowance [$(\text{₹ } 150 + \text{₹ } 70) \text{ p.m.} \times 12 \text{ months}$]	<u>₹ 2,640</u>
Transport allowance ($\text{₹ } 1,800 \text{ p.m.} \times 12 \text{ months}$)	<u>₹ 21,600</u>
Tribal area allowance ($\text{₹ } 500 \text{ p.m.} \times 12 \text{ months}$)	<u>₹ 6,000</u>
Taxable allowances	<u>₹ 30,240</u>

Question 10: illustration

Mr. Sagar who retired on 1.10.2021 is receiving Rs. 5,000 p.m. as pension. On 1.2.2022, he commuted 60% of his pension and received Rs. 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- He is a government employee.
- He is a private sector employee and received gratuity of Rs. 5,00,000 at the time of retirement.
- He is a private sector employee and did not receive any gratuity at the time of retirement.

Answer 10

- He is a government employee**
 Uncommuted pension received (October - March) Rs. 24,000

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[(₹ 5,000 × 4 months) + (40% of Rs. 5,000 × 2 months)]
 Commuted pension received Rs. 3,00,000
 Less: Exempt u/s 10(10A) Rs. 3,00,000

NIL**Taxable pension**Rs. 24,000

- (b) He is a private sector employee and received gratuity Rs. 5,00,000 at the time of retirement

Uncommuted pension received (October – March) Rs. 24,000

[(₹ 5,000 × 4 months) + (40% of Rs. 5,000 × 2 months)]
 Commuted pension received Rs. 3,00,000

Less: Exempt u/s 10(10A)

$\left[\frac{1}{3} \times \frac{\text{Rs. } 3,00,000}{60\%} \times 100\% \right]$ =Rs. 1,66,667

Rs. 1,33,333**Taxable pension**Rs. 1,57,333

- (c) He is a private sector employee and did not receive any gratuity at the time of retirement

Uncommuted pension received (October – March)
 Rs. 24,000

[(₹ 5,000 × 4 months) + (40% of Rs. 5,000 × 2 months)]
 Commuted pension received Rs. 3,00,000

Less: Exempt u/s 10(10A)

$\left[\frac{1}{2} \times \frac{\text{Rs. } 3,00,000}{60\%} \times 100\% \right]$ =Rs. 2,50,000 Rs.

50,000**Taxable pension**74,000 Rs.**Question 11: illustration**

Mr. Ravi retired on 15.6.2021 after completion of 26 years 8 months of service and received gratuity of Rs. 15,00,000. At the time of retirement, his salary was:

Basic Salary : Rs. 50,000 p.m.

Dearness Allowance : Rs. 10,000 p.m. (60% of which is for retirement benefits) Commission : 1% of turnover (turnover in the last 12 months was

Rs. 1,20,00,000)

Bonus : Rs. 25,000 p.a. Compute his taxable gratuity assuming:

- (a) **He is private sector employee and covered by the Payment of Gratuity Act, 1972.**
 (b) **He is private sector employee and not covered by Payment of Gratuity Act, 1972.**
 (c) **He is a Government employee.**

Answer 11

- (a) **He is covered by the Payment of Gratuity Act 1972**

Gratuity received at the time of retirement Rs. 15,00,000

Less: Exemption under section 10(10) Least of the following:

- Gratuity received Rs. 15,00,000
- Statutory limit Rs. 20,00,000
- 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months

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$$\frac{15}{26} \times \text{last drawn salary} \times \text{years of service} = \frac{15}{26} \times (50,000 + 10,000) \times 27 = \text{Rs. } 9,34,615$$

Taxable Gratuity Rs. 5,65,385

(b) He is not covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement Rs.
15,00,000

Less: Exemption under section 10(10) **(Note)** Rs. 8,58,000

Taxable Gratuity Rs. 6,42,000

Note: Exemption under section 10(10) is least of the following:

- (i) Gratuity received Rs. 15,00,000
- (ii) Statutory limit Rs. 20,00,000
- (iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

i.e. $\frac{1}{2} \times \text{Average salary} \times \text{years of service}$

$$\frac{1}{2} \times \left[\frac{(50,000 \times 10) + (10,000 \times 60\% \times 10) + \left[1\% \times 1,20,000 \times \frac{10}{12} \right]}{10} \right] \times 26$$

= Rs. 8,58,000

(c) He is a government employee

Gratuity received at the time of retirement Rs. 15,00,000

Less: Exemption under section 10(10) Rs. 15,00,000

Taxable gratuity Nil

Question 12: illustration

Mr. Gupta retired on 1.12.2021 after 20 years of service and received leave salary of Rs. 5,00,000. Other details of his salary income are:

Basic Salary : Rs. 5,000 p.m. (₹ 1,000 was increased

w.e.f. 1.4.2021) **Dearness Allowance** : Rs. 3,000 p.m. (60% of which is for

retirement benefits) **Commission** : Rs. 500 p.m.

Bonus : Rs. 1,000 p.m.

Leave availed during service : 480 days He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

- (a) He is a government employee.
- (b) He is a non-government employee.

Answer 12

(a) He is a government employee	
Leave Salary received at the time of retirement	Rs. 5,00,000
Less: Exemption under section 10(10AA)	Rs. 5,00,000
Taxable Leave salary	<u>Nil</u>
(b) He is a non-government employee	
Leave Salary received at the time of retirement	Rs. 5,00,000
Less: Exempt under section 10(10AA) [See Note below]	Rs. 26,400
Taxable Leave Salary	Rs. 4,73,600

Note: Exemption under section 10(10AA) is least of the following:

- (i) Leave salary received Rs. 5,00,000
- (ii) Statutory limit Rs. 3,00,000
- (iii) 10 months' salary based on average salary of last 10 months

i.e. $\left[10 \times \frac{\text{Salary of last 10 months i.e. Feb. - Nov.}}{10 \text{ months}} \right]$

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$$= \left[10 \times \frac{(5,000 \times 8) + (4,000 \times 2) + (60\% \times 3,000 \times 10)}{10 \text{ months}} \right] \text{ Rs. } 66,000$$

(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service)

Leav Due = Leave allowed - Leave taken

$$= (30 \text{ days per year} \times 20 \text{ years}) - 480 \text{ days} = 120 \text{ days}$$

i.e. $\left[\frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average salary p. m.} \right]$

$$\left[\frac{120 \text{ days}}{30 \text{ days}} \times \frac{\text{Rs. } 66,000}{10} \right] \text{ Rs. } 26,400$$

Question 13: illustration

Mr. A retires from service on December 31, 2023, after 25 years of service. Following are the particulars of his income/investments for the previous year 2023-24:

Particulars	Rs.
Basic pay @ Rs. 16,000 per month for 9 months	1,44,000
Dearness pay (50% forms part of the retirement benefits) Rs. 8,000 per month for 9 months	72,000
Lump sum payment received from the Unrecognized Provident Fund	6,00,000
Deposits in the PPF account	40,000

Out of the amount received from the unrecognized provident fund, the employer's contribution was Rs. 2,20,000 and the interest thereon Rs. 50,000. The employee's contribution was Rs. 2,50,000 and the interest thereon Rs. 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2024-25?

Answer 13

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2024-25 is computed hereunder:

Particulars	Rs.
Amount taxable under the head "Salaries":	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
Total	2,70,000
Amount taxable under the head "Income from Other Sources":	
Interest on the employee's share	60,000
Total amount taxable from the amount received from the fund	3,30,000

Note: Since the employee is not eligible for deduction under section 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

Question 14: illustration

Will your Answer be any different if the fund mentioned above was a recognised provident fund?

Answer 14

Since the fund is a recognized one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

Question 15: illustration

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Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2023-24. You are required to compute his gross salary from the details given below:

Basic Salary	Rs. 10,000 p.m.
D.A. (50% is for retirement benefits)	Rs. 8,000 p.m.
Commission as a percentage of turnover	0.1%
Turnover during the year	Rs. 50,00,000
Bonus	Rs. 40,000
Gratuity	Rs. 25,000
His own contribution in the RPF	Rs. 20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 13% p.a.	Rs. 13,000

Answer 15

Computation of Gross Salary of Mr. B for the A.Y. 2024-25

Particulars	Rs.	Rs.
Basic Salary [Rs. 10,000 × 12]		1,20,000
Dearness Allowance [₹8,000 × 12]		96,000
Commission on turnover [0.1% × Rs. 50,00,000]		5,000
Bonus		40,000
Gratuity [Note 1]		25,000
Employers contribution to RPF [20% of Rs. 1,20,000]	24,000	
Less: Exempt [Note 2]	20,760	3,240
Interest accrued in the RPF @ 13% p.a.	13,000	
Less: Exempt @ 9.5% p.a.	9,500	3,500
Gross Salary		2,92,740

Note 1: Gratuity received during service is fully taxable.

Note 2: Employers contribution in the RPF is exempt up to 12% of the salary. i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [₹1,20,000 + (50% × Rs. 96,000) + Rs. 5,000] = 12% of Rs. 1,73,000 = Rs. 20,760

Note 3: Employee's contribution to RPF is not taxable. It is eligible for deduction under section 80C. if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Question 16: illustration

Mr. Dutta received voluntary retirement compensation of Rs. 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary Rs. 20,000 p.m.; Dearness allowance (which forms part of pay) Rs. 5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief under section 89.

Answer 16

Voluntary retirement compensation received Rs. 7,00,000 Less: Exemption under section 10(10C) [See Note below] Rs. 5,00,000 Taxable voluntary retirement compensation Rs. 2,00,000 **Note:** Exemption is to the extent of least of the

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following:

- (i) Compensation actually received = Rs. 7,00,000
- (ii) Statutory limit = Rs. 5,00,000
- (iii) 3 months' salary × completed years of service
= (₹20,000 + Rs. 5,000) × 3 × 30 years = Rs. 22,50,000
- (iv) Last drawn salary × remaining months of service left
= (₹20,000 + Rs. 5,000) × 6 × 12 months = Rs. 18,00,000

Question 17: illustration

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2021. His basic salary is Rs. 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2022, 31.3.2023 and 31.3.2024 is Rs.9,81,137, Rs. 27,43,048 and Rs. 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viii) for the P.Y. 2023-24 and A.Y. 2024-25. Prior to 1.9.2021, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".

Answer 17

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viii) for

A.Y. 2023-24

1. Perquisite value taxable u/s 17(2)(vii) = Rs. 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2022-23 – ₹ 7,50,000 = Rs. 27,600
2. Perquisite value taxable u/s 17(2)(viii) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.111 + 0$
 $= ₹ 1,532$
 PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2022-23 = ₹ 27,600
 PC1 Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2021-22 and there is no employer's contribution in P.Y. 2020-21.
 TP1 Nil
 R $I/F_{avg} = 2,06,711/18,62,093 = 0.111$
 I RPF balance as on 31.3.2023 – employee's and employer's contribution during the year – RPF balance as on 1.4.2022 = ₹ 2,06,711 (₹ 27,43,048 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 9,81,137)
 Favg Balance to the credit of recognized provident fund as on 1st April, 2022 + Balance to the credit of recognized provident fund as on 31st March, 2023)/2 = (₹ 9,81,137 + ₹ 27,43,048)/2 = ₹ 18,62,093

Note – Interest on the aggregate of following will also be chargeable to tax during A.Y. 2023-24 –

- (i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2021-22]
- (ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y.

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- 2022-23]
- (iii) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2021-22
Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2024-25
- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 -
₹ 7,50,000 = ₹ 27,600
 - Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
= $(27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$
= ₹ 1,308 + ₹ 2,761 = ₹ 4,069
PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2023-24 = ₹ 27,600
PC1 Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2020-21 and P.Y. 2021-22 = ₹ 27,600
TP1 Taxable perquisite under section 17(2)(viia) for the P.Y. 2022-23 =
₹ 1,532
R $I/F_{avg} = 3,50,307/36,95,802 = 0.09479$
I RPF balance as on 31.3.2024 - employee's and employer's contribution during the year -
RPF balance as on 1.4.2023 =
₹ 3,50,307 (₹ 46,48,555 - ₹ 7,77,600 - ₹ 7,77,600 - ₹ 27,43,048)
Favg Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2024)/2 = $(₹ 27,43,048 + ₹ 46,48,555)/2 = ₹ 36,95,802$

Note - Interest on the aggregate of following will also be chargeable to tax during A.Y. 2024-25 -

- ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2021-22]
- ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2021-22
- interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2022-23

Question 18: illustration

Mr. D went on a holiday on 25.12.2023 to Delhi with his wife and three children (one son - age 5 years; twin daughters - age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount

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of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 18

Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. D, since he is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).

Question 19: illustration

In the above illustration 11, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

Answer 19

Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable

$$\text{LTC} = 15,000 \times \frac{1}{3} = \text{Rs. } 5,000$$

LTC exempt would be only Rs. 55,000 (i.e. Rs. 60,000 – Rs. 5,000)

Question 20: illustration

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2021-22:

Medical premium paid for insuring health of Mr. G	Rs. 7,000
Treatment of Mr. G by his family doctor	Rs. 5,000
Treatment of Mrs. G in a Government hospital	Rs. 25,000
Treatment of Mr. G's grandfather in a private clinic	Rs. 12,000
Treatment of Mr. G's mother (68 years and dependant) by family doctor	Rs. 8,000
Treatment of Mr. G's sister (dependant) in a nursing home	Rs. 3,000
Treatment of Mr. G's brother (independent)	Rs. 6,000
Treatment of Mr. G's father (75 years and dependent) abroad	Rs. 50,000
Expenses of staying abroad of the patient and attendant	Rs. 30,000
Limit specified by RBI	Rs. 75,000

Answer 20

Computation of taxable value of perquisite in the hands of Mr. G

Particulars	Rs.	Rs.
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	

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Less: Exempt up to limit specified by RBI	75,000	5,000
Medical premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor		5,000
Treatment of Mr. G's mother (dependent) by familydoctor		8,000
Treatment of Mr. G's sister (dependent) in a nursinghome		3,000
Treatment of Mr. G's grandfather in a private clinic		12,000
Treatment of Mr. G's brother (independent)		6,000
Taxable value of perquisite		39,000

Payment of premium on personal accident insurance policies

If an employer takes personal accident insurance policies on the life of employees and pays the insurance premium, no immediate benefit would become payable and benefit will accrue at a future date only if certain events take place. Moreover, the employers would be taking such policy in their business interest only, so as to indemnify themselves from payment of any compensation. Therefore, the premium so paid will not constitute a taxable perquisite in the employees' hands.

Question 21: illustration

Mr. C is a Finance Manager in ABC Ltd. The company has provided him with rent-free unfurnished accommodation in Mumbai. He gives you the following particulars:

Basic salary

Rs. 6,000 p.m.

Dearness Allowance benefits)

Rs. 2,000 p.m. (30% is for retirement

Bonus

Rs. 1,500 p.m.

Even though the company allotted the house to him on 1.4.2023, he occupied the same only from 1.11.2023. Calculate the taxable value of the perquisite for A.Y.2024-25.

Answer 21

Value of the rent free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of [(₹6000 × 5) + (₹2,000 × 30% × 5) + (₹1,500 × 5)] **[See Note below]**

= 15% of Rs. 40,500 = Rs. 6,075.

Note: Since, Mr. C occupies the house only from 1.11.2023, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2023 to 31.03.2024) will be considered.

Question 22: illustration

Using the data given in the previous illustration 14, compute the value of the perquisite if Mr. C is required to pay a rent of Rs. 1,000 p.m. to the company, for these of this accommodation.

Answer 22

First of all, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in cities having a population exceeding 25 lakh, there would be deemed to be a concession in the matter of rent if 15% of salary exceeds rent recoverable from the employee.

In this case, 15% of salary would be Rs. 6,075 (i.e. 15% of Rs. 40,500). The rent paid by the employee is Rs. 5,000 (i.e., Rs. 1,000 × 5). Since 15% of salary exceeds the rent recovered from the employee, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in

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computing the taxable perquisite.

Value of the rent free unfurnished accommodation = Rs. 6,075

Less: Rent paid by the employee ($\text{₹ } 1,000 \times 5$) = Rs. 5,000

Perquisite value of unfurnished accommodation given at concessional rent = Rs. 1,075

Question 23: illustration

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of Rs. 1,200 p.m. and Mr. C is required to pay a rent of Rs. 1,000 p.m. to the company, for the use of this accommodation.

Answer 23

Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation taken on lease by the employer, there would be deemed to be a concession in the matter of rent if the rent paid by the employer or 15% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 15% of salary is Rs. 6,075 (i.e. 15% of Rs. 40,500). Rent paid by the employer is Rs. 6,000 (i.e. Rs. 1,200 x 5). The lower of the two is Rs. 6,000, which exceeds the rent paid by the employee i.e., Rs. 5,000 ($\text{₹ } 1,000 \times 5$). Therefore, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent-free unfurnished accommodation [Note] = Rs. 6,000

Less: Rent paid by the employee ($\text{₹ } 1,000 \times 5$) = Rs. 5,000

Value of unfurnished accommodation given at concessional rent = Rs. 1,000

Note: Value of the rent free unfurnished accommodation is lower of

- (i) Lease rent paid by the company for relevant period = $\text{Rs. } 1,200 \times 5 = \text{Rs. } 6,000$
- (ii) 15% of salary for the relevant period (computed earlier) = Rs. 6,075

Question 24: illustration

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV Rs. 10,000; Cost Rs. 25,000) and two air conditioners. The rent paid by the company for the air conditioners is Rs. 400 p.m. each. The television was provided on 1.1.2021. However, Mr. C is required to pay a rent of Rs. 1,000 p.m. to the company, for the use of this furnished accommodation.

Answer 24

Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in a city having a population exceeding Rs. 25 lakh, there would be deemed to be a concession in the matter of rent if 15% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether there is a concession in the matter of rent.

In this case, 15% of salary is Rs. 6,075 (i.e. 15% of Rs. 40,500). The rent paid by the employee is Rs. 5,000 (i.e. Rs. 1,000 x 5). The value of furniture of Rs. 4,625 (**see Note below**) is to be added to 15% of salary. The deemed concession in the matter of rent is $\text{Rs. } 6,075 + \text{Rs. } 4,625 - \text{Rs. } 5,000 = \text{Rs. } 5,700$. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation (computed earlier) = Rs. 6,075 Add: Value of furniture provided by the employer

[Note] = Rs. 4,625

Value of rent free furnished accommodation = Rs. 10,700

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Less: Rent paid by the employee ($\text{₹ } 1,000 \times 5$) = Rs. 5,000

Value of furnished accommodation given at concessional rent = Rs. **5,700**

Note: Value of the furniture provided = ($\text{₹ } 400 \text{ p.m.} \times 2 \times 5 \text{ months}$) + ($\text{₹ } 25,000 \times 10\% \text{ p.a. for 3 months}$) = Rs. 4,000 + Rs. 625 = Rs. 4,625

Question 25: illustration

Using the data given in illustration 17 above, compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was Rs. 700 p.m.

Answer 25

In the case of Government employees, the excess of licence fees determined by the employer as increased by the value of furniture and fixture over and above the rent recovered/ recoverable from the employee and the charges paid or payable for furniture by the employee would be deemed to be the concession in the matter of rent. Therefore, the deemed concession in the matter of rent is Rs. 3,125 [i.e. Rs. 3,500 (licence fees: Rs. 700 x 5) + Rs. 4,625 (Value of furniture) – Rs. 5,000 ($\text{₹ } 1,000 \times 5$)]. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation ($\text{₹ } 700 \times 5$) =

Rs. 3,500 Add: Value of furniture provided by the employer

(computed earlier) = ₹ 4,625

Value of rent free furnished accommodation = Rs. 8,125

Less: Rent paid by the employee ($\text{₹ } 1,000 \times 5$) = Rs. 5,000

Perquisite value of furnished accommodation given at concessional rent = Rs. 3,125

Question 26: illustration

Mr. X and Mr. Y are working for M/s. Gama Ltd. As per salary fixation norms, the following perquisites were offered:

- (i) For Mr. X, who engaged a domestic servant for Rs. 500 per month, his employer reimbursed the entire salary paid to the domestic servant i.e. Rs. 500 per month.
- (ii) For Mr. Y, he was provided with a domestic servant @ Rs. 500 per month as part of remuneration package.

You are required to comment on the taxability of the above in the hands of Mr. X and Mr. Y, who are not specified employees.

Answer 26

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered under section 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

Question 27: illustration

Mr. X retired from the services of M/s Y Ltd. on 31.01.2024, after completing service of 30 years and one month. He had joined the company on 1.1.1994 at the age of 30 years and received the following on his retirement:

- (i) Gratuity Rs. 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of Rs. 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.

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- (iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2019 by the company for Rs. 5,00,000. Company has recovered Rs. 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of Rs. 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth Rs. 6,000 on his retirement.
- (vi) His colleagues also gifted him a Television (LCD) worth Rs. 50,000 from their own contribution.

Following are the other particulars:

- (i) He has drawn a basic salary of Rs. 20,000 and 50% dearness allowance per month for the period from 01.04.2023 to 31.01.2024.
- (ii) Received pension of Rs. 5,000 per month for the period 01.02.2024 to 31.03.2024 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2024-25 assuming he has not opted for the provisions of section 115BAC.

Answer 27

Computation of Gross Total Income of Mr. X for A.Y. 2022-23

Particulars	Rs.
Basic Salary = Rs. 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (₹ 5000 x 2)	10,000
Commutated pension (See Note - 5)	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16(ia)	50,000
Taxable Salary /Gross Total Income	6,82,769

Notes:

- (1) As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding Rs. 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of Rs. 5,000. Therefore, the entire amount of Rs. 6,000 is liable to tax as perquisite.

Note – An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable. In such a case, the value of perquisite would be Rs. 1,000 and gross taxable income would be Rs. 7,27,769.

- (2) **Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	Rs.

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Purchase price (30.1.2021)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2022	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2023	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2024	2,56,000
Less: Amount recovered	2,00,000
Value of perquisite	56,000

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is **not** relevant for calculation of perquisite value of car in the hands of Mr. X.

(3) Taxable gratuity

Particulars		Rs.
Gratuity received		6,00,000
Less :	Exempt under section 10(10) - Least of the following:	
	(i) Notified limit = Rs. 20,00,000	
	(ii) Actual gratuity = Rs. 6,00,000	
	(iii) $15/26 \times$ last drawn salary \times no. of completed years of services or part in excess of 6 months $15/26 \times$ Rs. 30,000 \times 30 = Rs. 5,19,231	5,19,231
Taxable Gratuity		80,769

Note: As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption under section 10(10).

(4) Taxable leave encashment

Particulars		Rs.
Leave Salary received		3,30,000
Less :	Exempt under section 10(10AA) - Least of the following:	
(i)	Notified limit	Rs. 3,00,000
(ii)	Actual leave salary	Rs. 3,30,000
(iii)	10 months \times Rs. 20,000	Rs. 2,00,000
(iv)	Cash equivalent of leave to his credit	Rs. 2,20,000
	$\left[\frac{330}{30} \times 20,000 \right]$	2,00,000
Taxable Leave encashment		1,30,000

Note – It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be Rs. 3,00,000 (i.e. 10 \times Rs. 30,000) and the fourth limit Rs. 3,30,000, in which case, the taxable leave encashment would be Rs. 30,000 (₹ 3,30,000 - Rs. 3,00,000). In such a case, the gross total income would be Rs. 6,32,769.

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- (5) Commuted Pension Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of $\frac{1}{3}$ rd of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	Rs.
Amount received	3,00,000
Exemption under section 10(10A) = $\frac{1}{3} \times \left[3,00,000 \times \frac{3}{2} \right]$	1,50,000
Taxable amount	1,50,000

- (6) The taxability provisions under section 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

Question 28: illustration

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2023-24:

- (i) **Domestic servant was provided at the residence of Bala. Salary of domestic servant is Rs. 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer). In case the company has employed the domestic servant, what is the value of perquisite?**
- (ii) **Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at Rs. 900 per month and for Ashok at Rs. 1,200 per month. No amount was recovered by the company for such education facility from Bala.**
- (iii) **The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is Rs. 1,10,000.**
- (iv) **A gift voucher worth Rs. 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.**
- (v) **Telephone provided at the residence of Shri Bala and the bill aggregating to Rs. 25,000 paid by the employer.**
- (vi) **Housing loan @ 6% per annum. Amount outstanding on 1.4.2023 is Rs. 6,00,000. Shri Bala pays Rs. 12,000 per month towards principal, on 5th of each month.**

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2024-25. The lending rate of State Bank of India as on 1.4.2023 for housing loan may be taken as 10%.

Answer 28

Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

- (i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees. Taxable perquisite value = Rs. 1,500 × 12 = Rs. 18,000. If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be Rs. 18,000.
- (ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost

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of such education per child does not exceed Rs. 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed Rs. 1,000 per month. However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds Rs. 1,000 per month. The taxable perquisite value would be Rs. 14,400 ($\text{₹} 1,200 \times 12$).

Note – An alternate view possible is that only the sum in excess of Rs. 1,000 per month is taxable. In such a case, the value of perquisite would be Rs. 2,400.

- (iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is Rs. 1,10,000. The perquisite value would be 10% of the actual cost i.e., Rs. 11,000, being 10% of Rs. 1,10,000.
- (iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding Rs. 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of Rs. 5,000.

Therefore, the entire amount of Rs. 10,000 is liable to tax as perquisite.

Note- An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable. In such a case, the value of perquisite would be Rs. 5,000

- (v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.
- (vi) The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him. "Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is $10\% - 6\% = 4\%$

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2023	5,88,000	1,960
May, 2023	5,76,000	1,920
June, 2023	5,64,000	1,880
July, 2023	5,52,000	1,840
August, 2023	5,40,000	1,800
September, 2023	5,28,000	1,760
October, 2023	5,16,000	1,720
November, 2023	5,04,000	1,680
December, 2023	4,92,000	1,640

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January, 2024	4,80,000	1,600
February, 2024	4,68,000	1,560
March, 2024	4,56,000	1,520
Total value of this perquisite		20,880

Total value of taxable perquisite

= **Rs. 74,280 [i.e. Rs. 18,000 + Rs. 14,400 + Rs. 11,000 + Rs. 10,000 + Rs. 20,880].**

Note - In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be Rs. 57,280 [i.e., Rs. 18,000 + ₹ 2,400 + ₹ 11,000 + ₹ 5,000 + ₹ 20,880].

Question 29: illustration

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2023. The shares were allotted at Rs. 200 per share as against the fair market value of Rs. 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

- (i) **What is the perquisite value of sweat equity shares allotted to Sri Chand?**
- (ii) **In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?**

Answer 29

- (i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	Rs.
Fair market value of 1000 sweat equity shares @ Rs. 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ Rs. 200 each	2,00,000
Value of perquisite of sweat equity shares allotted to Sri Chand	1,00,000

- (ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). (The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter)
Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be Rs. 3,00,000.

Question 30: illustration

X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2023-24 -

- (1) **Accommodation taken on lease by X Ltd. for Rs. 15,000 p.m. Rs. 5,000 p.m. is recovered from the salary of Mr. Y.**
- (2) **Furniture, for which the hire charges paid by X Ltd. is Rs. 3,000 p.m. No amount is recovered from the employee in respect of the same.**
- (3) **A Car of 1,200 cc which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.**
- (4) **A gift voucher of Rs. 10,000 on his birthday.**

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Compute the value of perquisites chargeable to tax for the A.Y.2024-25, assuming his salary for perquisite valuation to be Rs. 10 lakh.

Answer 30

Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2022-23

	Particulars	Amount in	Rs.
(1)	Value of concessional accommodation		
	Actual amount of lease rental paid by X Ltd.	1,80,000	
	15% of salary i.e., 15% of Rs. 10,00,000	1,50,000	
	Lower of the above		1,50,000
	Less: Rent paid by Mr. Y ($\text{₹ } 5,000 \times 12$)		60,000
			90,000
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y ($\text{₹ } 3,000 \times 12$)		36,000
(2)	Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [$(\text{₹ } 1,800 + \text{₹ } 900) \times 12$]		32,400
	Value of gift voucher*		10,000
(3)	Value of perquisites chargeable to tax		10,000
			1,68,400

* An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable. In such a case, the value of perquisite would be Rs. 5,000

Question 31: illustration

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2024.

Basic pay	Rs.40,000
Dearness Allowance	Rs.15,000
Commission	Rs.10,000
Entertainment allowance	Rs. 4,000
Medical expenses reimbursed	Rs.25,000
Professional tax paid (₹ 1,000 was paid by his employer)	Rs. 2,000

Mr. Goyal contributes Rs. 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2024-25, if Mr. Goyal is a State Government employee.

Answer 31

Computation of salary of Mr. Goyal for the A.Y.2024-25 under default tax regime under section 115BAC

Particulars	

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Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	0
	1,000
Gross Salary	7,16,000
Less: Deductions under section 16(ia) - Standard deduction of upto	
`50,000	50,000
Income from Salary	6,66,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. However, such deduction shall not be available under the default tax regime under section 115BAC.

Computation of salary of Mr. Goyal for the A.Y.2024-25 under the optional tax regime (normal provisions of the Act)

Particulars		
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		7,16,000
Less: Deductions under section 16		
under section 16(ia) - Standard deduction of upto		50,000
`50,000		
under section 16(ii) - Entertainment allowance being		
lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [$1/5 \times `4,00,000$]	80,000	
(c) Statutory amount	5,000	5,000
under section 16(iii) - Professional tax paid		2,000
Income from Salary		6,59,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

Question 32: illustration

In the case of Mr. Hari, who turned 71 years on 28.3.2024, you are informed that the salary (computed) for the previous year 2023-24 is Rs. 10,20,000 and arrears of salary received is Rs. 3,45,000. Further, you are given the following

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details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary(₹)	Arrears now received (₹)
2010 - 2011	7,10,000	1,03,000
2011 - 2012	8,25,000	1,17,000
2012 - 2013	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2024-25

Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Note: Rates of Taxes:

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2011-12	Upto Rs. 2,40,000	Nil	Upto Rs. 1,60,000	Nil
	Rs. 2,40,001 - Rs. 5,00,000	10 %	Rs. 1,60,001 - Rs. 5,00,000	10 %
	Rs. 5,00,001 - Rs. 8,00,000	20 %	Rs. 5,00,001 - Rs. 8,00,000	20 %
	Above Rs. 8,00,000	30 %	Above Rs. 8,00,000	30 %
2012-13	Upto Rs. 2,50,000	Nil	Upto Rs. 1,80,000	Nil
	Rs. 2,50,001 - Rs. 5,00,000	10 %	Rs. 1,80,001 - Rs. 5,00,000	10 %
	Rs. 5,00,001 - Rs. 8,00,000	20 %	Rs. 5,00,001 - Rs. 8,00,000	20 %
	Above Rs. 8,00,000	30 %	Above Rs. 8,00,000	30 %
2013-14	Upto Rs. 2,50,000	Nil	Upto Rs. 2,00,000	Nil
	Rs. 2,50,001 - Rs. 5,00,000	10 %	Rs. 2,00,001 - Rs. 5,00,000	10 %
	Rs. 5,00,001 - Rs. 10,00,000	20 %	Rs. 5,00,001 - Rs. 10,00,000	20 %
	Above Rs. 10,00,000	30 %	Above Rs. 10,00,000	30 %

Note - Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for all above preceding years.

Answer 32

Computation of tax payable by Mr. Hari for the A.Y.2022-23

Particulars	Incl. arrears of salary Rs.	Excl. arrears of salary Rs.

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Current year salary (computed)	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-
Taxable Salary	13,65,000	10,20,000
Income-tax thereon	2,19,500	1,16,000
Add : Health and education cess @4%	8,780	4,640
Total payable	2,28,280	1,20,640

Computation of tax payable on arrears of salary if charged to tax in the respective AYs

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
Taxable salary	8,13,000	7,10,000	9,42,000	8,25,000	10,75,000	9,50,000
Tax on the above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess@3%	2,937	2,280	4,038	2,985	4,425	3,450
Tax payable	1,00,837	78,280	1,38,638	1,02,485	1,51,925	1,18,450

Computation of relief under section 89

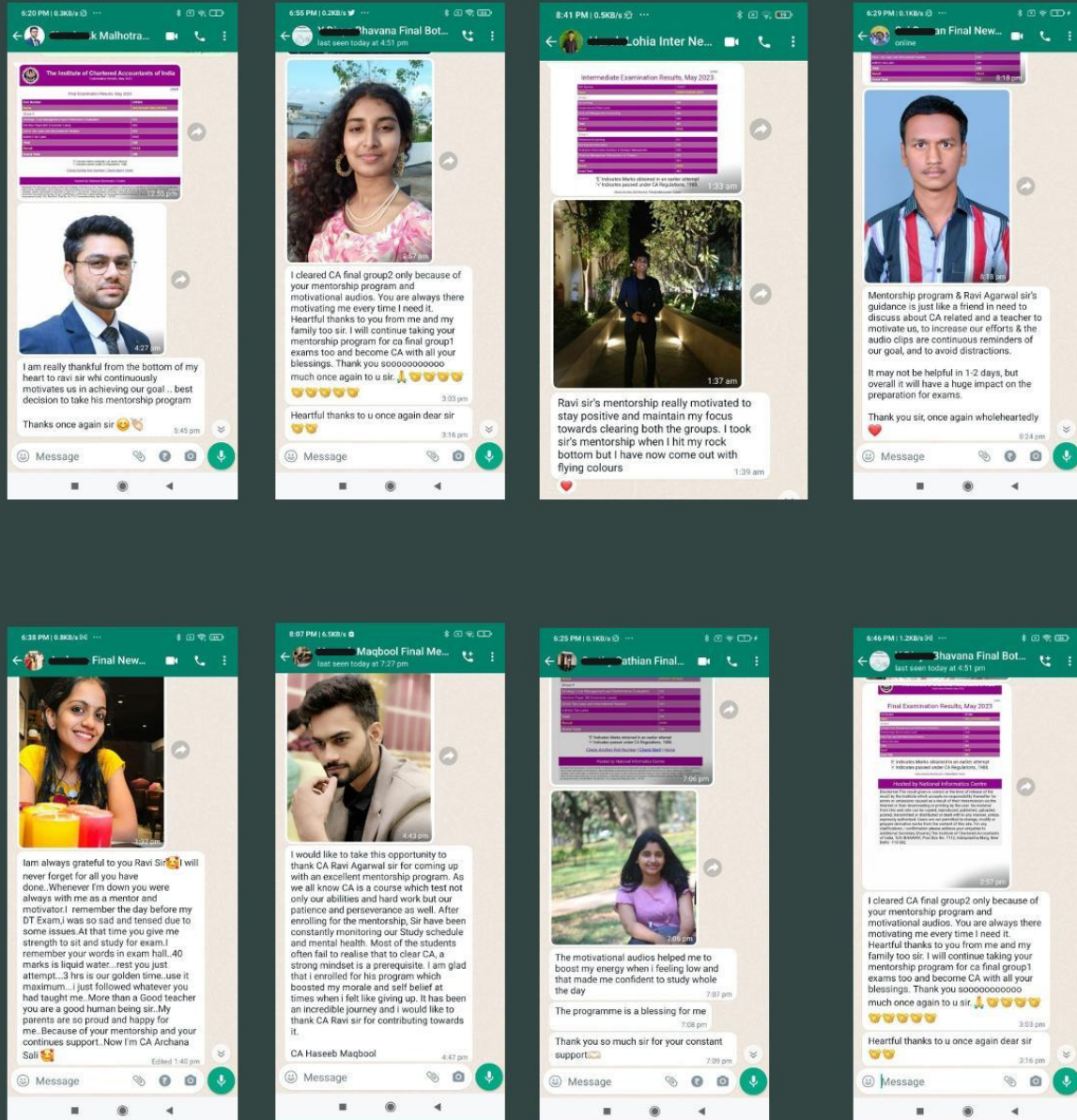
	Particulars	Rs.	Rs.
i	Tax payable in A.Y.2024-25 on arrears:		
	Tax on income including arrears	2,28,280	
	Less : Tax on income excluding arrears	1,20,640	1,07,640
ii	Tax payable in respective years on arrears :		
	Tax on income including arrears (₹ 1,00,837 + Rs. 1,38,638 + Rs. 1,51,925)	3,91,400	
	Less: Tax on income excluding arrears (₹ 78,280 + Rs. 1,02,485 + Rs. 1,18,450)	2,99,215	92,185
	Relief under section 89 - difference between tax on arrears in A.Y 2022-23 and tax on arrears in the respective years		15,455

Tax payable for A.Y.2024-25 after relief under section 89

Particulars	Rs.
Income-tax payable on total income including arrears of salary	2,28,280
Less : Relief under section 89 as computed above	15,455
Tax payable after claiming relief	2,12,825

Paper 3 - Taxation

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Chapter 3.2

Income from house property

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov '20	Jan' 21	Jul'2 1	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q5					Q4		Q3		
RTP			Q6	Q2, Q7							Q1	
Q & A												
MTP									Q5, Q7	Q8	Q6	Q1, Q10
PYP			Q12				Q11					
RTP		Q4	Q9	Q13	Q3, Q14					Q2		

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. **Mr. Virat has a house property in Chennai which he let out to Mr. Sumit. For acquisition of this house, Mr. Virat has taken a loan of ₹ 30,00,000 @10% p.a. on 1-4-2016. He has further taken a loan of ₹ 5 lakhs @12% p.a. on 1.7.2022 towards repairs of the house. He has not repaid any amount of loan so far. The amount of interest deduction u/s 24(b) to Mr. Virat for A.Y. 2023-24 if he opted for the provisions of section 115BAC is - (RTP May '23)**

- (a) ₹ 2,00,000
 (b) ₹ 2,30,000
 (c) ₹ 3,45,000
 (d) ₹ 3,60,000

Ans: (c)

2. **Mr. Raghav has three houses for self-occupation. What would be the tax treatment for A.Y.2020-21 in respect of income from house property?**

- (a) One house, at the option of Mr. Raghav, would be treated as self-occupied. The other two houses would be deemed to be let out.
 (b) Two houses, at the option of Mr. Raghav, would be treated as self-occupied. The other house would be deemed to be let out.
 (c) One house, at the option of Assessing Officer, would be treated as self-occupied. The other two houses would be deemed to be let out.
 (d) Two houses, at the option of Assessing Officer, would be treated as self-occupied. The other house would be deemed to be let out. **(RTP Nov '19)**

Ans: (b)

3. **Mr. Akash is constructing a residential house property in Patna for self-**

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occupation. He has taken a loan of ₹ 40 lakhs from SBI on 30.3.2021 for this purpose. He pays interest of ₹ 2.50 lakhs during the P.Y.2021-22. He repays ₹ 1.50 lakhs towards principal on 31.3.2022. The construction is completed in May, 2022. The stamp duty value of the house is ₹ 46 lakhs. This is the only house property of Mr. Akash. For A.Y. 2022-23 -

- Mr. Akash is entitled for deduction of ₹ 2 lakhs under section 24 and ₹ 1.50 lakhs under section 80C
- Mr. Akash is entitled for deduction of ₹ 2 lakhs under section 24, ₹ 50,000 under section 80EEA and ₹ 1.50 lakhs under section 80C
- Mr. Akash is neither entitled for deduction under section 24 nor under section 80C. He is, however, entitled for deduction of ₹ 1.50 lakhs under section 80EEA
- Mr. Akash is not entitled for deduction under section 24, section 80C and section 80EEA

(MTP 2 Marks Oct'22)

Ans: (d)

4. Mr. Ashutosh purchased his first dream home in Bangalore on 16.8.2020. He applied for home loan of ₹ 40 lakhs from IDFC bank on 15.7.2020, the same was sanctioned by bank on 20.7.2020. The stamp duty value of the said house was ₹ 44 lakhs. The interest due on the said home loan is ₹ 3,75,000 for the financial year 2020-21. Due to liquidity issues, Mr. Ashutosh could only pay ₹ 3,26,000. Compute the total interest deduction Mr. Ashutosh can claim for the A.Y. 2021-22, assuming Mr. Ashutosh doesn't opt for the tax rates under the new scheme.

- ₹ 3,26,000
- ₹ 2,00,000
- ₹ 3,75,000
- ₹ 3,50,000

(MTP 2 Marks, Oct'21)

Ans: (d)

5. Ms. Sheetal and her brother jointly own a bungalow. They had taken a housing loan to purchase the bungalow. The loan is sanctioned in the name of Ms. Sheetal and her brother in the year 2015. Interest on housing loan for the P.Y. 2018-19 amounted to ₹4,50,000 which is paid by Ms. Sheetal (₹2,25,000) and her brother (₹2,25,000). The bungalow is used by them for their residence. In this case, what will be the amount of deduction available under section 24(b) to Ms. Sheetal and her brother?

- ₹ 30,000 each
- ₹2,00,000 each
- ₹2,25,000 each
- ₹4,50,000 each

(MTP 1 Mark, April'19)

Ans: (b)

6. In respect of loss from house property, which of the following statements are correct?

- While computing income from any house property, the maximum interest deduction allowable under section 24 is ₹ 2 lakhs
- Loss from house property relating to a particular year can be set-off against income under any other head during that year only to the extent of ₹ 2 lakhs
- The loss in excess of ₹ 2 lakh, which is not set-off during the year, can be carried forward for set-off against any head of income in the succeeding year(s)
- All the above

(RTP May '19)

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Ans: (b)

7. 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? (Old & New SM)
- 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. (Nov '19)

Ans: (a)

Question & Answers

Question 1

Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of ₹ 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for the Financial Year 2018-19.

	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal Valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let-out to Star Private Limited	Let-out to Ms. Puja

₹ 17,000 were paid as interest on loan taken by mortgaging House 1 for construction of House 2.

During the previous year 2018-19, Mr. Madhvan purchased a rural agricultural land for ₹ 2,50,000. Stamp valuation of such property is ₹ 3,00,000.

Determine the taxable income of Mr. Madhvan for the assessment year 2019-20. All workings should form part of your answer. (MTP 7 Marks Sep '23)

Answer 1

Computation of taxable income of Mr. Madhvan for A.Y. 2019-20

Particulars			
Salaries			

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Basic Salary = ` 30,000 x 12		3,60,000	
Rent free accommodation		54,000	
[Lower of lease rental paid or payable by the employer (or) 15% of salary i.e., lower of ` 65,000 or ` 54,000, being 15% of ` 3,60,000]			
Gross Salary		4,14,000	
Less: Standard deduction u/s 16(IA) [Actual salary or ` 40,000 (As per amendment Rs. 50,000), whichever is less]		40,000 50,000	
Net Salary	House 1		3,74,000 3,64,000
Income from house property		House 2	
Municipal value (A)	74,000	1,90,000	
Fair rent (B)	75,000	1,95,000	
Higher of (A) and (B) = (C)	75,000	1,95,000	
Actual rent received	65,000	2,85,000	
Gross Annual Value [Higher of (C) and Actual rent]	75,000	2,85,000	
Less: Municipal tax paid	18,000	70,000	
Net Annual Value (NAV)	57,000	2,15,000	
Less: Deductions u/s 24 30% of NAV	17,100	64,500	
Interest on loan	Nil	17,000	
Income from house property [$\text{` } 39,900 + \text{` } 1,33,500$]	39,900	1,33,500	1,73,400
Income from Other Sources			
Purchase of rural agricultural land for a consideration less than stamp duty value [Not taxable under section 56(2)(x), since rural agricultural land is not a capital asset]			Nil
Total Income			5,47,400
Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."			

Question 2

Mr. Roy owns a house in Kolkata. During the previous year 2021-22, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of ₹ 12,000 p.m. The tenant vacated the property on 28th February, 2022. The property was vacant during March, 2022. Rent for the months of January 2022 and February 2022 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied.

Municipal value of the property is ₹ 4,50,000 p.a., fair rent is ₹ 4,70,000 p.a. and standard rent is ₹ 5,00,000. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 30,00,000 was taken by him during the year 2012 for acquiring the property. Interest on loan paid during the previous year 2021 -22

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was ₹ 1,51,000. Compute Roy's income from house property for the A.Y. 2022-23. (RTP Nov'22)

Answer 2

There are two units of the house. Unit I with 3/4th area is used by Mr. Roy for self-occupation throughout the year and no benefit is derived from that unit, hence, it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/4th area is let-out during the previous year and its annual value has to be determined as per section 23(1).

Computation of Income from house property of Mr. Roy for the A.Y. 2022-23

Particulars	₹	
Unit I (3/4th area – self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b) 3/4th of ₹ 1,51,000		1,13,250
Income from Unit I (self-occupied)		(1,13,250)
Unit II (1/4th area – let out)		
Computation of GAV		
Step 1 – Computation of Expected Rent (ER)		
ER = Higher of municipal value (MV) and fair rent (FR), but restricted to standard rent (SR).	1,17,500	
However, in this case, standard rent of ₹ 1,25,000 (1/4th of ₹ 5,00,000) is more than the higher of MV of ₹ 1,12,500 (1/4th of ₹ 4,50,000) and FR of ₹ 1,17,500 (1/4th of ₹ 4,70,000). Hence the higher of MV and FR is the ER. In this case, it is the fair rent.		
Step 2 – Computation of actual rent received/ receivable ₹ 12,000 × 9 = 1,08,000 [The property was let-out for 11 months. However, rent for 2 months i.e., January and February, 2022 could not be realized. Actual rent should not include any amount of rent which is not capable of being realized. Therefore, actual rent has been computed for 9 months]	1,08,000	
Step 3 – Computation of GAV		
The actual rent of ₹ 1,08,000 is lower than expected rent of ₹ 1,17,500 owing to vacancy, since had the property not been vacant in March 2022, the actual rent would have been ₹ 1,20,000 (i.e. ₹ 1,08,000 + ₹ 12,000), which is higher than the ER of ₹ 1,17,500. Therefore, actual rent is the GAV.	1,08,000	1,08,000
Gross Annual Value (GAV)		
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion		
1/4th of (10% of ₹ 4,50,000) = ₹ 45,000/4 = ₹ 11,250		11,250
Net Annual Value (NAV)		96,750
Less: Deductions under section 24 (a) 30% of NAV = 30% of ₹ 96,750	29,025	

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(b) Interest paid on borrowed capital (relating to let out portion) [1/4th of ₹ 1,51,000]	37,750	66,775
Income from Unit II (let-out)		29,975
Loss under the head "Income from house property" (-1,13,250 + 29,975)		-83,275

Note – Alternatively, as per income-tax returns, unrealized rent can be deducted from GAV. In such a case, GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,17,500 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 24,000 and municipal taxes of ₹ 11,250 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 96,750.

Question 3

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. (RTP Nov '20)

Answer 3

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

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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

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.

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	40,000

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

Question 4

Mr. Ranjan owns a shop whose construction got completed in August 2016. He took a loan of ₹ 22 lakhs from Bank of Baroda on 1-8-2015 and had been paying

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interest calculated at 9% per annum. During the financial year 2017-18, the shop was let out at a monthly rent of ₹ 45,000. He paid municipal tax of ₹ 18,000 each for the financial year 2016-17 and 2017-18 on 25-5-2017 and 15-4-2018, respectively. Compute income under the head 'House Property' of Mr. Ranjan for the Assessment year 2018-19, assuming that the entire amount of loan is outstanding on the last day of the current previous year.(RTP Nov '18)

Answer 4

Computation of income under the head "House Property" of Mr. Ranjan for A.Y.2018-19

Particulars	₹	₹
2Gross Annual Value (₹ 45,000 x 12)		5,40,000
Less: Municipal taxes (See Working Note 1)		18,000
Net Annual Value (NAV)		5,22,000
Less: Deductions under section 24		
(i) 30% of NAV	1,56,600	
(ii) Interest on housing loan (See Working Note 2)	2,24,400	3,81,000
Income chargeable under the head "House Property"		1,41,000

Working Notes:

(1)	Municipal taxes deductible from Gross Annual Value	
	As per proviso to section 23(1), municipal taxes actually paid by the owner during the previous year is allowed to be deducted from Gross Annual Value. Accordingly, only ₹ 18,000 paid on 25.05.2017 is allowed to be deducted from Gross Annual Value, while computing income from house property of the previous year 2017-18.3	
(2)	Interest on housing loan allowable as deduction under section 24	
	As per section 24(b), interest for the current year (₹ 22,00,000 x 9%)	₹ 1,98,000
	Pre-construction interest For the period 01.08.2015 to 31.03.2016 (₹ 22,00,000 x 9% x 8/12) = ₹ 1,32,000 ₹ 1,32,000 allowed in 5 equal installments (₹ 1,32,000/5) from P.Y. 2016-17 to P.Y. 2020-21	₹ 26,400
		₹ 2,24,400
3.	Deduction under section 24(b), in respect of interest on housing loan for let out property, fully allowed without any limit.	

² In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the Gross Annual Value

³ The municipal tax of ₹ 18,000 paid on 15.4.2018 would be allowed as deduction while computing income from house property of the previous year 2018-19.

Question 5

Mr. Sailesh constructed a house in P.Y. 2015-16 with 3 independent units. During the P.Y. 2021-22, Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 20,000. Rent of January, 2022 could not be

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collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Sailesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2022 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Sailesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 2,88,000 Fair rent - ₹ 2,98,000

Standard rent under the Rent Control Act - ₹ 2,78,000 Municipal taxes - ₹ 30,000 paid by Mr. Sailesh Repairs - ₹ 7,000

Interest on capital borrowed for the construction of the property - ₹ 90,000, Ground rent - ₹ 6,000 and

Fire insurance premium paid - ₹ 60,000.

Income of Sailesh from the business is ₹ 2,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Sailesh for the assessment year 2022-23 if he opts to be taxed under section 115BAC. (MTP 7 Marks April 22)

Answer 5

Computation of taxable income of Mr. Sailesh for A.Y. 2022-23

Particulars	Amount	Amount
Income from house property		
Unit - 1 [50% of floor area - Let out]		
Gross Annual Value, higher of		
- Expected rent ₹ 1,39,000 [Higher of Municipal Value of ₹ 1,44,000 p.a. and Fair Rent of ₹ 1,49,000 p.a., but restricted to Standard Rent of ₹ 1,39,000 p.a.]		
- Actual rent ₹ 1,80,000 i.e., [₹ 20,000 x 10] less unrealized rent of January, 2022 ₹ 20,000		
Gross Annual Value	1,80,000	
Less: Municipal taxes [50% of ₹30,000]	15,000	
Net Annual Value	1,65,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	49,500	
(b) Interest on loan [50% of ₹ 90,000]	45,000	70,500
Unit - 3 [25% of floor area - Self occupied]		
Net Annual Value		-
Less: Interest on loan [Not allowed as Mr. Sailesh is opting for section 115BAC.]		-
Income from house property		70,500
Profits and gains from business or profession		
Business Income [without deducting expenditure of Unit - 2 25% floor area used for business purposes]	2,40,000	
Less: Expenditure in respect of Unit -2		
- Municipal taxes [25% of ₹ 30,000]	7,500	
- Repairs [25% of ₹ 7,000]	1,750	
- Interest on loan [25% of ₹ 90,000]	22,500	
- Ground rent [25% of ₹ 6,000]	1,500	
- Fire Insurance premium [25% of ₹ 60,000]	15,000	48,250
Taxable Income		1,91,750
		2,62,250

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Note: Alternatively, if as per income-tax returns, unrealised rent is deducted from GAV, then GAV would be ₹ 2,00,000, being higher of unexpected rent of ₹ 1,39,000 and actual rent of ₹ 2,00,000. Thereafter, unrealised rent of ₹ 20,000 and municipal taxes of ₹ 15,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,65,000

Question 6

Mr. Ramesh and Mr. Suresh constructed their houses on a piece of land purchased by them at Mumbai. The built up area of each house was 1,500 sq. ft. ground floor and an equal area in the first floor. Ramesh started construction on 1-04-2021 and completed on 1-04-2022. Suresh started the construction on 1-04-2021 and completed the construction on 30-06-2022. Ramesh occupied the entire house on 01-04-2022. Suresh occupied the ground floor on 01-07-2022 and let out the first floor for a rent of ₹ 15,000 per month. However, the tenant vacated the house on 31-12-2022 and Suresh occupied the entire house during the period 01-01-2023 to 31-03-2023.

Following are the other information

(i)	Fair rental value of each unit (ground floor / first floor)	₹1,00,000 per annum
(ii)	Municipal value of each unit (ground floor / first floor)	₹ 72,000 per annum
(iii)	Municipal taxes paid by	Ramesh – ₹ 8,000 Suresh – ₹ 8,000
(iv)	Repair and maintenance charges paid by	Ramesh – ₹ 28,000 Suresh – ₹ 30,000

Ramesh has availed a housing loan of ₹ 20 lakhs @ 12% p.a. on 01-04-2021. Suresh has availed a housing loan of ₹ 12 lakhs @ 10% p.a. on 01-07-2021. No repayment was made by either of them till 31-03-2023. Compute income from house property for Ramesh and Suresh for the previous year 2022-23 (A.Y. 2023-24). (MTP 7 Marks April '23 , March'21, Apr'19)

Answer 6

Computation of income from house property of Mr. Ramesh for A.Y. 2023-24

Particulars	₹	₹
Annual value is nil (since house is self occupied)		Nil
Less: Deduction under section 24(b)		
Interest paid on borrowed capital ₹ 20,00,000 @ 12%	2,40,000	
Pre-construction interest ₹ 2,40,000/5	48,000	
	2,88,000	
As per second proviso to section 24(b), interest deduction restricted to		2,00,000
Loss under the head "Income from house property" of Mr. Ramesh		(2,00,000)

Computation of income from house property of Mr. Suresh for A.Y. 2023-24

Particulars	Ground floor (Self)	First floor
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	occupied)	
Gross annual value (See Note below)	Nil	90,000
Less: Municipal taxes (for first floor)		4,000
Net annual value(A)	Nil	86,000
Less: Deduction under section 24		
(a) 30% of net annual value		25,800
(b) interest on borrowed capital		
Current year interest		
₹ 12,00,000 x 10% = ₹ 1,20,000	60,000	60,000
Pre-construction interest		
₹ 12,00,000 x 10% x 9/12 = ₹ 90,000		
₹ 90,000 allowed in 5 equal installments	9,000	9,000
₹ 90000/5 = ₹ 18,000 per annum		
Total deduction under section 24(b)	69,000	94,800
Income from house property (A)-(B)	(69,000)	(8,800)
Loss under the head "Income from house property" of Mr. Suresh (both ground floor and first floor)	(77,800)	

Note: Computation of Gross Annual Value (GAV) of first floor of Suresh's house

If a single unit of property (in this case the first floor of Suresh's house) is let out for some months and self-occupied for the other months, then the Expected Rent of the property shall be taken into account for determining the annual value. The Expected Rent shall be compared with the actual rent and whichever is higher shall be adopted as the annual value. In this case, the actual rent shall be the rent for the period for which the property was let out during the previous year.

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 9 months since the construction of property was completed only on 30.6.2022.

Expected rent = ₹ 75,000 being higher of -
 Fair rent = $1,00,000 \times 9 / 12 = ₹ 75,000$ Municipal value
 = $72,000 \times 9 / 12 = ₹ 54,000$

Actual rent = ₹ 90,000 (₹ 15,000 p.m. for 6 months from July to December, 2022)

Gross Annual Value = ₹ 90,000 (being higher of Expected Rent of ₹ 75,000 and actual rent of ₹ 90,000)

Question 7

You are required to compute the income from "House Property" for the A.Y. 2022-23 of M^{rs} Rajni from her house property at Panchkula in Haryana. The Municipal value of the property is ₹ 7,50,000, Fair Rent of the property is ₹ 6,30,000 and Standard Rent is ₹ 7,20,000 per annum. The property was let out for ₹ 80,000 per month for the period April 2021 to November 2021.

Thereafter, the tenant vacated the property and M^{rs} Rajni used the house for self-occupation. Rent for the months of October and November 2021 could not be realized from the tenant. The tenancy was bonafide but the defaulting

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tenant was in occupation of another property of the assessee, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property.

(MTP 4 Marks March '22)

Answer 7

Computation of income from house property of M^{rs} Rajni for the A.Y.2022-23

Particulars		Amount in ₹	
Computation of Gross Annual Value			
Expected Rent for the whole year = Higher of Municipal Value of ₹ 7,50,000 and Fair Rent of ₹ 6,30,000, but restricted to Standard Rent of ₹ 7,20,000		7,20,000	
Actual rent received for the let-out period = ₹ 80,000 x 8		6,40,000	
[Unrealised rent is not deductible from actual rent in this case since the defaulting tenant is in occupation of another property of the assessee, and hence, one of the conditions laid out in Rule 4 has not been fulfilled]			
GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period		7,20,000	
Gross Annual Value (GAV)			7,20,000
Less:	Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 7,50,000		90,000
Net Annual Value (NAV)			6,30,000
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of ₹ 6,30,000	1,89,000	
	(b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let- out property)	50,000	2,39,000
Income from house property			3,91,000

Question 8

Mr. Varun is a resident but not ordinarily resident in India during the Assessment Year 2022-23. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2021-22:

- He owns two houses, one in Australia and the other in Delhi.
- The house in Australia is let out there at a rent of SGD 3,000 p.m. The entire rent is received in India. He paid Property tax of SGD 1000 and Sewerage Tax SGD 500 there. (1SGD=INR 55)
- The house in Delhi is self-occupied. He had taken a loan of ₹ 20,00,000 to construct the house on 1st June, 2017 @12%. The construction was completed on 31st May, 2020 and he occupied the house on 1st June, 2020. The entire loan is outstanding as on 31st March, 2022. Property tax paid in respect of the second house is ₹ 2,500.

Compute the income chargeable under the head "Income from House property" in the hands of Mr. Varun for the Assessment Year 2022-23. (MTP 4 Marks Sep'22)

Answer 8

Computation of income from house property of Mr. Varun for A.Y. 2022-23

Particulars	₹	₹
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1. Income from let-out property in Australia [See Note 1 below]		19,80,000
² Gross Annual Value (SGD 3,000 p.m. x 12 months x ₹ 55)		
Less: Municipal taxes paid during the year [SGD 1,500 (SGD 1,000 + SGD 500) x ₹ 55] ³		<u>82,500</u>
Net Annual Value (NAV)		18,97,500
Less: Deductions under section 24		
(a) 30% of NAV	5,69,250	
(b) Interest on housing loan		<u>5,69,250</u>
	=	
		13,28,250
2. Income from self-occupied property in Delhi		Nil
Annual Value [Nil, since the property is self-occupied]		Nil
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		Nil
Less: Deduction in respect of interest on housing loan [See Note 2 below]		<u>2,00,000</u>
		(2,00,000)
Income from house property [₹ 13,28,250 – ₹ 2,00,000]		11,28,250

Notes:

- Since Mr. Varun is a resident but not ordinarily resident in India for A.Y. 2022-23, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in Australia would be taxable in India since such income is received by him in India.
- Interest on housing loan for construction of self-occupied property allowable as deduction under section 24.

Interest for the current year (₹ 20,00,000 x 12%) ₹ 2,40,000

Pre-construction interest

For the period 01.06.2017 to 31.03.2020 (₹ 20,00,000 x 12% x 34/12) = ₹ 6,80,000

₹ 6,80,000 allowed in 5 equal installments (₹ 6,80,000/5) ₹ 1,36,000

₹

3,76,000

In case of self-occupied property, interest deduction to be restricted to ₹ 2,00,000

¹ In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the GAV

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² Both property tax and sewerage tax qualify for deduction from gross annual value

Question 9

Shraddha has two flats in Mumbai, both of which are self-occupied. The particulars of these are given below:

Particulars	(Value in ₹)	
	Flat at Goregaon	Flat at Navi Mumbai
Municipal Valuation per annum	1,40,000	1,35,000
Fair Rent per annum	1,60,000	1,80,000
Standard rent per annum	1,40,000	1,90,000
Date of completion of construction	1-02-2012	24-08-2006
Municipal taxes payable during the year (paid for Flat at Navi Mumbai only)	10%	12%
Interest on money borrowed for repair of property during current year	-	72,000

Compute Shraddha's income from house property for the Assessment Year 2019-20. Also, suggest which flat should be opted by Shraddha to be assessed as self-occupied so that her tax liability is minimum. (RTP May '19)

Answer 9

In this case, Shraddha has more than one house property for self-occupation. As per section 23(4), Shraddha can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of one (*two*) of the house properties;

(As per amendment If Assessee has more than one property for own residential purpose then upto 2 houses can be treated as self occupied property and any other houses are deemed to be let out.)

As per amendment-

Particulars	Amount in ₹
<i>Flat at Goregaon (Self-occupied) [Annual value is Nil]</i>	<i>Nil</i>
<i>Flat at Navi (Self-occupied) [Annual value is Nil]</i>	<i>Nil</i>
<i>Income from house property</i>	<i>Nil</i>

Question 10

Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the financial year 2020-21. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of \$ 18,000. Fair rent of the house property is \$ 20,000. The value of one CYD (\$) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2020, which is used for self-occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during the previous year 2020-21. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @9.5% from HDFC Bank on 1st August, 2018 for purchasing this flat. No amount is repaid by him till 31.03.2021.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and Standard Rent of ₹ 4,20,000 p.a. He had taken a loan of ₹ 25,00,000 @

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10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2020-21. Compute the income chargeable from house property of Mr. Roxx for the assessment year 2021-22. (RTP May '21, MTP 6 Marks Oct '23)

Answer 10

Since Mr. Roxx, is a resident but not ordinarily resident in India, only the income in respect of properties situated in India would be taxable in his hands. Thus, the rental income which accrues or arises in Country Y from the let-out property and annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx. Accordingly, the income from house property of Mr. Roxx for A.Y.2021-22 will be calculated as under:

Particulars		₹	₹
1.	Self-occupied house at Delhi		
	Annual value		Nil
	Less: Deduction under section 24	Nil	
	Interest on borrowed capital (See Note below)		2,00,000
	Chargeable income from this house property		(2,00,000)
2.	Let out house property at Bangalore		
	Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000	4,20,000	
	Actual rent [40,000 x 12]	4,80,000	
	Gross Annual Value, being higher of expected rent and actual rent		4,80,000
	Less: Municipal taxes		5,400
	Net Annual Value		4,74,600
	Less: Deduction under section 24		
	- 30% of net annual value [30% x 4,74,600]	1,42,380	
	- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	3,92,380
			82,220
	Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)		(1,17,780)

Note: Interest on borrowed capital

Particulars		₹
Interest for the current year [18,00,000 x 9.5%]		1,71,000
Add: 1/5th of pre-construction interest (₹ 2,85,000 x 1/5)		57,000
1.8.2018 to 31.03.2019 – (₹ 18,00,000 x 9.5% x 8/12)	1,14,000	
1.4.2019 to 31.03.2020 – (₹ 18,00,000 x 9.5%)	1,71,000	
		2,28,000
Interest deduction allowable under section 24, restricted to		2,00,000

Question 11

Mr. Ramesh constructed a big house (construction completed in Previous Year 2008 -09) with 3 independent units. Unit - 1 (50% of floor area) is let out for

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residential purpose at monthly rent of ` 15,000. A sum of ` 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Ramesh is occupied by the tenant. Unit - 1 remains vacant for 2 months when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Ramesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ` 1,88,000 Fair rent - ` 2,48,000

Standard rent under the Rent Control Act - ` 2,28,000

Municipal taxes - ` 20,000 Repairs - ` 5,000

Interest on capital borrowed for the construction of the property - ` 60,000, ground rent

` 6,000 and fire insurance premium paid - ` 60,000.

Income of Ramesh from the business is ` 1,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Ramesh for the assessment year 2021-22 if he does not opt to be taxed under section 115BAC. (PYP 6 Marks, July'21)

Answer 11

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

Particulars	Amount (`)	Amount (`)
Income from house property		
Unit - 1 [50% of floor area - Let out]		
Gross Annual Value, higher of - Expected rent ` 1,14,000 [Higher of Municipal Value of ` 94,000 p.a. and Fair Rent of ` 1,24,000 p.a., but restricted to Standard Rent of ` 1,14,000 p.a.] - Actual rent ` 1,47,000 [$\frac{15,000 \times 10}{12}$] less unrealized rent ³ of ` 3,000 Gross Annual Value (Alternatively, ` 1,50,000 can be shown as actual rent and gross annual value, and thereafter, deduct ` 3,000 unrealized rent therefrom)	1,47,000	
Less: Municipal taxes [50% of ` 20,000 ⁴]	10,000	
Net annual value	1,37,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	41,100	
(b) Interest on loan [50% of ` 60,000]	30,000	
Unit - 3 [25% of floor area - Self occupied]		
Net Annual Value	-	65,900
Less: Interest on loan [25% of ` 60,000]	15,000	(15,000)
Income from house property		50,900
Profits and gains from business or profession		
Business Income [without deducting expenditure on Unit - 2 25% floor area used for business purposes]	1,40,000	
Less: Expenditure in respect of Unit -2		

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- Municipal taxes [25% of ₹ 20,000]	5,000		
- Repairs [25% of ₹ 5,000]	1,250		
- Interest on loan [25% of ₹ 60,000]	15,000		
- Ground rent [25% of ₹ 6,000]	1,500		
- Fire Insurance premium [25% of ₹ 60,000]	15,000	37,750	1,02,250
Taxable Income			1,53,150

3 Since the conditions laid down under Rule 4 of Income-tax Rules, 1962, are satisfied

4 Assumed to have been paid during the year by Mr. Ramesh

Question 12

Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of ₹ 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for the Financial Year 2018-19.

	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal Valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let-out to Star Private Limited	Let-out to Ms. Puja

₹ 17,000 were paid as interest on loan taken by mortgaging House 1 for construction of House 2.

During the previous year 2018-19, Mr. Madhvan purchased a rural agricultural land for ₹ 2,50,000. Stamp valuation of such property is ₹ 3,00,000.

Determine the taxable income of Mr. Madhvan for the assessment year 2019-20. All workings should form part of your answer. (PYP 8 Marks, May'19)

Answer 12

Computation of taxable income of Mr. Madhvan for A.Y. 2019-20

Particulars			
Salaries			
Basic Salary = ₹ 30,000 x 12		3,60,000	
Rent free accommodation		54,000	
[Lower of lease rental paid or payable by the employer (or) 15% of salary i.e., lower of ₹ 65,000 or ₹ 54,000, being 15% of ₹ 3,60,000]			
Gross Salary		4,14,000	

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Less: Standard deduction u/s 16(IA) [Actual salary or ₹ 40,000 (As per amendment Rs. 50,000) , whichever is less]		40,000 50,000	
Net Salary	House 1		3,74,000 3,64,000
Income from house property		House 2	
Municipal value (A)	74,000	1,90,000	
Fair rent (B)	75,000	1,95,000	
Higher of (A) and (B) = (C)	75,000	1,95,000	
Actual rent received	65,000	2,85,000	
Gross Annual Value [Higher of (C) and Actual rent]	75,000	2,85,000	
Less: Municipal tax paid	18,000	70,000	
Net Annual Value (NAV)	57,000	2,15,000	
Less: Deductions u/s 24 30% of NAV	17,100	64,500	
Interest on loan	Nil	17,000	
Income from house property [₹ 39,900 + ₹ 1,33,500]	39,900	1,33,500	1,73,400
Income from Other Sources			
Purchase of rural agricultural land for a consideration less than stamp duty value [Not taxable under section 56(2)(x), since rural agricultural land is not a capital asset]			Nil
Total Income			5,47,400
Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."			

Question 13

You are required to compute the income from "House Property" for the A.Y. 2022-23 of M^{rs} Rajni from her house property at Panchkula in Haryana. The Municipal value of the property is ₹ 7,50,000, Fair Rent of the property is ₹ 6,30,000 and Standard Rent is ₹ 7,20,000 per annum. The property was let out for ₹ 80,000 per month for the period April 2021 to November 2021.

Thereafter, the tenant vacated the property and M^{rs} Rajni used the house for self-occupation. Rent for the months of October and November 2021 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property. (RTP Nov '19)

Answer 13

Computation of income from house property of M^{rs} Rajni for the A.Y. 2022-23

Particulars	Amount in ₹
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Computation of Gross Annual Value		
Expected Rent for the whole year = Higher of Municipal Value of ₹ 7,50,000 and Fair Rent of ₹ 6,30,000, but restricted to Standard Rent of ₹ 7,20,000	7,20,000	
Actual rent received for the let-out period = ₹ 80,000 x 8	6,40,000	
[Unrealised rent is not deductible from actual rent in this case since the defaulting tenant is in occupation of another property of the assessee, and hence, one of the conditions laid out in Rule 4 has not been fulfilled]		
GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period	7,20,000	
Gross Annual Value (GAV)		7,20,000
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 7,50,000		90,000
Net Annual Value (NAV)		6,30,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 6,30,000	1,89,000	
(b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let- out property)	50,000	2,39,000
Income from house property		3,91,000

Question 14

Mr. Varun is a resident but not ordinarily resident in India during the Assessment Year 2022-23. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2021-22:

- He owns two houses, one in Australia and the other in Delhi.
- The house in Australia is let out there at a rent of SGD 3,000 p.m. The entire rent is received in India. He paid Property tax of SGD 1000 and Sewerage Tax SGD 500 there. (1SGD=INR 55)
- The house in Delhi is self-occupied. He had taken a loan of ₹ 20,00,000 to construct the house on 1st June, 2017 @12%. The construction was completed on 31st May, 2020 and he occupied the house on 1st June, 2020. The entire loan is outstanding as on 31st March, 2022. Property tax paid in respect of the second house is ₹ 2,500.

Compute the income chargeable under the head "Income from House property" in the hands of Mr. Varun for the Assessment Year 2022-23. (RTP May 20)

Answer 14

Computation of income from house property of Mr. Varun for A.Y. 2022-23

Particulars	₹	₹
1. Income from let-out property in Australia [See Note 1 below]		19,80,000
⁴ Gross Annual Value (SGD 3,000 p.m. x 12 months x ₹ 55)		

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Less: Municipal taxes paid during the year [SGD 1,500 (SGD 1,000 + SGD 500) x ₹ 55] ⁵		<u>82,500</u>
Net Annual Value (NAV)		18,97,500
Less: Deductions under section 24		
(a) 30% of NAV	5,69,250	
(b) Interest on housing loan		<u>5,69,250</u>
	=	
		<u>13,28,250</u>
3. Income from self-occupied property in Delhi		
Annual Value [Nil, since the property is self-occupied]		Nil
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		Nil
Less: Deduction in respect of interest on housing loan [See Note 2 below]		<u>2,00,000</u>
		<u>(2,00,000)</u>
Income from house property [₹ 13,28,250 - ₹ 2,00,000]		11,28,250

Notes:

- (3) Since Mr. Varun is a resident but not ordinarily resident in India for A.Y. 2022-23, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in Australia would be taxable in India since such income is received by him in India.
- (4) Interest on housing loan for construction of self-occupied property allowable as deduction under section 24.

Interest for the current year (₹ 20,00,000 x 12%) ₹ 2,40,000

Pre-construction interest

For the period 01.06.2017 to 31.03.2020 (₹ 20,00,000 x 12% x 34/12) = ₹ 6,80,000

₹ 6,80,000 allowed in 5 equal installments (₹ 6,80,000/5) ₹ 1,36,000

₹ 3,76,000

In case of self-occupied property, interest deduction to be restricted to ₹ 2,00,000

Section - B

Question 1

Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	Rs.
Municipal value of the property	1,60,000

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Paper 3 - Taxation

Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is Rs. 25,000, out of which Rs. 21,000 has been paid. Interest on the unpaid interest is Rs. 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is Rs. 5,000.

The municipal taxes of Rs. 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2024-25.

Answer 1

Computation of income from house property of Mr. Raman for A.Y. 2022-23

Particulars	Rs.	Rs.
Gross Annual Value (See Note 1 below)		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan (See Note 2 below)		
- Interest on loan taken from bank	25,000	
- Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		96,000
50% share taxable in the hands of Mr. Raman (See Note 3)		48,000

Notes:

1. Computation of Gross Annual Value (GAV)

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	Rs.	Rs.	Rs.	Rs.
(a) Municipal value	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		1,70,000		
(e) Expected rent [lower of (c) and (d)]			1,60,000	
(f) Actual rent [₹ 15,000 x 12]			1,80,000	
(g) Gross Annual Value [higher of (e) and (f)]				1,80,000

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also

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Paper 3 - Taxation

- allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
3. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

Question 2

Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for Rs. 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2023-24 are as under:

Standard rent	Rs. 1,62,000 p.a.
Municipal valuation	Rs. 1,90,000 p.a.
Fair rent	Rs. 1,85,000 p. a
Municipal tax (Paid by Mr. X)	5% of municipal valuation
Light and water charges	Rs. 500 p.m.
Interest on borrowed capital	Rs. 1,500 p.m.
Lease money	Rs. 1,200 p.a.
Insurance charges	Rs. 3,000 p.a.
Repairs	Rs. 12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2024-25 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 2

Computation of Income from house property for A.Y. 2022-23

Particulars	Rs.	Rs.
(A) Rented unit (50% of total area - See Note below)		
Step I - Computation of Expected Rent		
Municipal valuation ($\text{₹ } 1,90,000 \times \frac{1}{2}$)	95,000	
Fair rent ($\text{₹ } 1,85,000 \times \frac{1}{2}$)	92,500	
Standard rent ($\text{₹ } 1,62,000 \times \frac{1}{2}$)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II - Actual Rent		
Rent receivable for the whole year ($\text{₹ } 8,000 \times 10$)	80,000	
Step III - Computation of Gross Annual Value		
The actual rent of ` 80,000 is lower than ER of ` 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ` 96,000 ($\text{₹ } 80,000 + \text{₹ } 16,000$, being notional rent for two months). Therefore, the actual rent is the GAV.	80,000	

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Paper 3 - Taxation

Gross Annual Value		80,000
Less: Municipal taxes (5% of Rs. 95,000)		4,750
Net Annual value		75,250
Less : Deductions under section 24 -		
(i) 30% of net annual value	22,575	
(ii) Interest on borrowed capital (₹ 750 x 12)	9,000	31,575
Taxable income from let out portion		43,675
(B) Self-occupied unit (50% of total area - See Notebelow)		
Annual value	Nil	
Less : Deduction under section 24 -		
Interest on borrowed capital (₹ 750 x 12)	9,000	9,000
Loss from self-occupied portion		(9,000)
Income from house property		34,675

Note: No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

Question 3

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are Rs. 96,000, Rs. 1,26,000 and Rs. 1,08,000 (per annum), respectively. During the Financial Year 2023-24, one-third of the portion of the house was let out for residential purpose at a monthly rent of Rs. 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @ 11 % of municipal value was paid during the year. The construction of the house began in June, 2016 and was completed on 31-5-2019. Vikas took a loan of Rs. 1,00,000 on 1-7-2016 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 3

Computation of income from house property of Mr. Vikas for the A.Y. 2024-25

Particulars	Rs.	Rs.
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan (See Notebelow) (₹ 18,600 x 2/3) [Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]		12,400
Loss from self occupied property		(12,400)
II. Let-out portion (One third)		

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Paper 3 - Taxation

Gross Annual Value			
(a) Actual rent received (₹ 5,000 x 12)	Rs. 60,000		
(b) Expected rent [higher of municipal valuation (i.e., Rs. 96,000) and fair rent (i.e., Rs. 1,26,000) but restricted to standard rent (i.e., Rs. 1,08,000)] = Rs.36000 (1,08,000 x 1/3)	Rs. 36,000		
Higher of (a) or (b)		60,000	
Less: Municipal taxes (₹ 96,000 x 11% x 1/3)		3,520	
Net Annual Value		56,480	
Less: Deductions under section 24			
(a) 30% of NAV		16,944	
(b) Interest on loan (See Note below) (₹ 18,600 x 1/3)		6,200	33,336
Income from house property			20,936

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2023 to 31.3.2024) = 12% of Rs. 1,00,000 = Rs. 12,000

Pre-construction period interest = 12% of Rs. 1,00,000 for 33 months (from 1.07.2016

to 31.3.2019) = Rs. 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of Rs. 6,600

from the year of completion of construction i.e. from F.Y. 2019-20 till F.Y. 2023-24.

Therefore, total interest deduction under section 24 = Rs. 12,000 + Rs. 6,600 = Rs. 18,600.

Question 4

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2023-24. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$ 20,000. The value of one USD (\$) may be taken as Rs. 75. She took ownership and possession of a flat in Chennai on 1.7.2023, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2024. The municipal valuation is Rs. 3,84,000 p.a. and the fair rent is Rs. 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax	Rs. 16,200
Sewerage Tax	Rs. 1,800

She had taken a loan from Standard Chartered Bank in June, 2019 for purchasing this flat. Interest on loan was as under:

Particulars	Rs.
Period prior to 1.4.2023	49,200
1.4.2023 to 30.6.2023	50,800
1.7.2023 to 31.3.2024	1,31,300

She had a house property in Bangalore, which was sold in March, 2020. In respect of this house, she received arrears of rent of Rs. 60,000 in March, 2024. This amount has not been charged to tax earlier.

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Paper 3 - Taxation

Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2024-25 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Would your answer change if she pays tax under the default tax regime under section 115BAC?

Answer 4

Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of "Nil" Annual Value in respect of both the house properties.

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2022-23 will be calculated as under:

	Particulars	Rs.	Rs.
1.	Self-occupied house at Los Angeles		
	Annual value		Nil
	Less: Deduction under section 24		Nil
	Chargeable income from this house property		Nil
2.	Self-occupied house property at Chennai		
	Annual value		Nil
	Less: Deduction under section 24		
	Interest on borrowed capital (See Note below)		1,91,940
3.	Arrears in respect of Bangalore property (Section 25A)		(1,91,940)
	Arrears of rent received	60,000	
	Less: Deduction @ 30% u/s 25A(2)	18,000	42,000
		0	
	Loss under the head "Income from house property"		(1,49,940)

Note: Interest on borrowed capital

Particulars	Rs.
Interest for the current year (₹ 50,800 + Rs. 1,31,300)	1,82,100
Add: 1/5th of pre-construction interest (₹ 49,200 x 1/5)	9,840
Interest deduction allowable under section 24	1,91,940

Question 5

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2015-2016. The property consists of eight identical units and is situated at Cochin.

During the financial year 2023-24, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ` 12,000 per month per unit. The municipal value of the house property is ` 9,00,000 and the

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Paper 3 - Taxation

municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

(i) Repairs	40,000
(ii) Insurance premium (paid)	15,000
(iii) Interest payable on loan taken for construction of house	3,00,000

One of the let out units remained vacant for four months during the year. Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2023-24.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2024-25 if they pay tax under the default tax regime under section 115BAC.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 5

If Arun and Bimal pay tax under the default tax regime under section 115BAC

Computation of total income for the A.Y. 2024-25

Particulars	Arun (₹)	Bimal (₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)	Nil	Nil
Loss from self occupied property	Nil	Nil
II. Let-out portion (75%) – See Working Note below	1,25,850	1,25,850
Income from house property	1,25,850	1,25,850
Other Income	2,90,000	1,80,000
Total Income	4,15,850	3,05,850

Working Note – Computation of Income from Let-Out Portion of House Property

Particulars		
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent [(₹ 12,000 x 6 x 12) – (₹ 12,000 x 1 x 4)]	8,16,000	
= ₹ 8,64,000 - ₹ 48,000		
- whichever is higher		8,16,000

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Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of ₹ 3 lakh]	2,25,000	4,29,300
Income from let-out portion of house property		2,51,700
Share of each co-owner (50%)		1,25,850

If Arun and Bimal have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

Computation of total income for the A.Y. 2024-25

Particulars	Arun (₹)	Bimal (₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]	37,500	37,500
Loss from self occupied property	(37,500)	(37,500)
II. Let-out portion (75%) – See Working Note above	1,25,850	1,25,850
Income from house property	88,350	88,350
Other Income Total	2,90,000	1,80,000
Income	3,78,350	2,68,350

Question 6: illustration

Jayashree owns five houses in India, all of which are let-out. Compute the GAV of each house from the information given below –

Particulars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
Municipal Value	80,000	55,000	65,000	24,000	80,000
Fair Rent	90,000	60,000	65,000	25,000	75,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent received/receivable	72,000	72,000	60,000	30,000	72,000

Answer 6

As per section 23(1), Gross Annual Value (GAV) is the higher of Expected rent and actual rent received. Expected rent is higher of municipal value and fair rent but restricted to standard rent.

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Paper 3 - Taxation

Computation of GAV of each house owned by Jayashree

	Particulars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
(i)	Municipal value	80,000	55,000	65,000	24,000	80,000
(ii)	Fair rent	90,000	60,000	65,000	25,000	75,000
(iii)	Higher of (i) & (ii)	90,000	60,000	65,000	25,000	80,000
(iv)	Standard rent	N.A.	75,000	58,000	N.A.	78,000
(v)	Expected rent [Lower of (iii) & (iv)]	90,000	60,000	58,000	25,000	78,000
(vi)	Actual rent received/receivable	72,000	72,000	60,000	30,000	72,000
	GAV [Higher of (v) & (vi)]	90,000	72,000	60,000	30,000	78,000

Question 7: illustration

Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y. 2023-24. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y. 2023-24. The value of one £ in Indian rupee to be taken at Rs. 95. Compute Rajesh's Net Annual Value of the property for the A.Y. 2024-25.

Answer 7

For the P.Y. 2023-24, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is to be allowed as deduction from the gross annual value.

Computation of Net Annual Value of the property of Mr. Rajesh for A.Y. 2024-25

Particulars	Rs.
Gross Annual Value (£ 10,000 X 12 X 95)	1,14,00,000
Less: Municipal taxes paid (£ 8,000 X 95)	7,60,000
Net Annual Value (NAV)	1,06,40,000

Question 8: illustration

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of Rs. 30 lakh @ 10% p.a. on 1.4.2022. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of Rs. 5 lakh @ 11% p.a. on 1.10.2022 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y. 2024-25 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 8

Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Bombay and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house.

He is eligible for deduction under section 24(b) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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Paper 3 - Taxation

Computation of deduction u/s 24(b) for A.Y.2024-25

Particulars		Rs.
I	Interest on loan taken for acquisition of residential house property at Bombay	
	30,00,000 x 10% = Rs. 3,00,000	
	Restricted to Rs. 2,00,000	2,00,000
II	Interest on loan taken for repair of residential house property at Delhi	
	Rs. 5,00,000 x 11% = Rs. 55,000	
	Restricted to Rs. 30,000	30,000
Total interest		2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to		2,00,000

Question 9: illustration

Anirudh has a property whose municipal valuation is Rs. 1,30,000 p.a. The fair rent is Rs. 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is Rs. 1,20,000 p.a. The property was let out for a rent of Rs. 11,000 p.m. throughout the previous year. Unrealised rent was Rs. 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was Rs. 40,000 for the year. Compute his income from house property for A.Y.2024-25.

Answer 9

Computation of Income from house property of Mr. Anirudh for A.Y. 2022-23

Particulars	Amount in Rs.	
Computation of GAV		
Step 1 Compute ER		
ER = Higher of MV of Rs. 1,30,000 p.a. and FR of Rs. 1,10,000 p.a., but restricted to SR of Rs. 1,20,000 p.a.	1,20,000	
Step 2 Compute actual rent received/receivable		
Actual rent received/ receivable less unrealized rent as per Rule 4 = Rs. 1,32,000 - Rs. 11,000	1,21,000	
Step 3 Compare ER of Rs. 1,20,000 and Actual rent received/receivable of Rs. 1,21,000		
Step 4 GAV is the higher of ER and Actual rent received/receivable	1,21,000	
Gross Annual Value (GAV)		1,21,000
Less: Municipal taxes (paid by the owner during the previous year) = 10% of Rs. 1,30,000		13,000
Net Annual Value (NAV)		1,08,000
Less: Deductions under section 24		
(a) 30% of NAV	32,400	
(b) Interest on borrowed capital (actual without any ceiling limit)	40,000	72,400
Income from house property		35,600

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be Rs. 1,32,000, being higher of expected rent of Rs.

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Paper 3 - Taxation

1,20,000 and actual rent of Rs. 1,32,000. Thereafter, unrealized rent of Rs. 11,000 and municipal taxes of Rs. 13,000 would be deducted from GAV of Rs. 1,32,000 to arrive at the NAV of Rs. 1,08,000.

Question 10: illustration

Ganesh has a property whose municipal valuation is Rs. 2,50,000 p.a. The fair rent is Rs. 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is Rs. 2,10,000 p.a. The property was let out for a rent of Rs. 20,000 p.m. However, the tenant vacated the property on 31.1.2024. Unrealized rent was Rs. 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was Rs. 65,000 for the year. Compute the income from house property of Ganesh for A.Y. 2024-25.

Answer 10

Computation of income from house property of Ganesh for A.Y. 2022-23

Particulars	Amount in Rs.	
Computation of GAV		
Step 1 Compute ER		
Higher of MV of Rs. 2,50,000 p.a. & FR of Rs. 2,00,000 p.a., but restricted to SR of Rs. 2,10,000 p.a.	2,10,000	
Step 2 Compute Actual rent received/ receivable		
Actual rent received/ receivable for let out period less unrealized rent as per Rule 4 = Rs. 2,00,000 – Rs. 20,000	1,80,000	
Step 3 Compare ER & Actual rent received/ receivable		
Step 4 In this case the actual rent of Rs. 1,80,000 is lower than ER of Rs. 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been Rs. 2,20,000 (₹ 1,80,000 + Rs. 40,000, being notional rent for February and March 2020). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)		1,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 8% of Rs. 2,50,000		20,000
Net Annual Value (NAV)		1,60,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of Rs. 1,60,000	48,000	
(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property		47,000

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be Rs. 2,00,000, being the actual rent, since the actual rent is lower than the expected rent of Rs. 2,10,000 owing to vacancy. Thereafter, unrealized rent of Rs. 20,000 and municipal taxes of Rs. 20,000 would be deducted from GAV of Rs. 2,00,000 to arrive at the NAV of Rs. 1,60,000.

Question 11: illustration

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighborhood is ₹ 25,000

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p.m. The municipal valuation is ` 2,80,000 p.a.. Municipal taxes paid is ` 8,000. The house construction began in April 2017 with a loan of ` 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2017. The construction was completed on 30.11.2019. The accumulated interest up to 31.3.2019 is ` 3,60,000. On 31.3.2024, Poorna paid ` 2,40,000 which included ` 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for A.Y. 2024-25 assuming that she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 11

Computation of income from house property of Smt. Poorna for A.Y. 2022-23

Particulars		Amount Rs.
Annual Value of house used for self-occupation under section 23(2)		Nil
Less	Deduction under section 24	
:		
	Interest on borrowed capital Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of Rs. 2,00,000 (including apportioned pre- construction interest) will be allowed as deduction. In this case the total interest is Rs. 1,80,000 + Rs. 72,000 (Being 1/5 th of Rs. 3,60,000) = Rs. 2,52,000. However, the interest deduction is restricted to Rs. 2,00,000.	2,00,000
Loss from house property		(2,00,000)

Question 12: illustration

Smt. Raja Lakshmi owns a house property at Adyar in Chennai. The municipal value of the property is Rs. 5,00,000, fair rent is Rs. 4,20,000 and standard rent is Rs. 4,80,000. The property was let-out for Rs. 50,000 p.m. up to December 2021. Thereafter, the tenant vacated the property and Smt. Raja Lakshmi used the house for self-occupation. Rent for the months of November and December 2021 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of Rs. 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2024-25.

Answer 12

Computation of income from house property of Smt. Raja Lakshmi for A.Y. 2024-25

Particulars		Amount in Rs.	
Computation of GAV			
Step 1	Compute ER for the whole year		
	ER = Higher of MV of Rs. 5,00,000 and FR of Rs. 4,20,000, but restricted to SR of Rs. 4,80,000	4,80,000	

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Step 2	Compute Actual rent received/ receivable		
	Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (₹ 50,000 × 9) - (₹ 50,000 × 2) = Rs. 4,50,000 -Rs. 1,00,000	3,50,000	
Step 3	Compare ER for the whole year with the actual rent received/ receivable for the let out period i.e. Rs. 4,80,000 and Rs. 3,50,000		
Step 4	GAV is the higher of ER computed for the whole year and Actual rent received/ receivable computed for the let-out period	4,80,000	
Gross Annual Value (GAV)			4,80,000
Less:	Municipal taxes (paid by the owner during the previous year) = 12% of Rs. 5,00,000		60,000
Net Annual Value (NAV)			4,20,000
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of Rs. 4,20,000	1,26,000	
	(b) Interest on borrowed capital	25,000	1,51,000
Income from house property			2,69,000

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be Rs. 4,80,000, being higher of expected rent of Rs. 4,80,000 and actual rent of Rs. 4,50,000. Thereafter, unrealized rent of Rs. 1,00,000 and municipal taxes of Rs. 60,000 would be deducted from GAV of Rs. 4,80,000 to arrive at the NAV of Rs. 3,20,000. The deduction u/s 24(a) would be Rs. 96,000, being 30% of Rs. 3,20,000. The income from house property would, therefore, be Rs. 1,99,000.

Question 13: illustration

Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y. 2023-24 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	Rs. 3,00,000	Rs. 3,60,000	Rs. 3,30,000
Fair rent p.a.	Rs. 3,75,000	Rs. 2,75,000	Rs. 3,80,000
Standard rent p.a.	Rs. 3,50,000	Rs. 3,70,000	Rs. 3,75,000
Date of completion/purchase	31.3.1999	31.3.2002	01.4.2015
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	55,000	
Interest for current year on money borrowed in April, 2016 for purchase of property			1,75,000

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Compute Ganesh's income from house property for A.Y.2024-25 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

Answer 13

Let us first calculate the income from each house property assuming that they are deemed to be let out.

Computation of income from house property of Ganesh for the A.Y. 2024-25

Particulars	Amount in Rs.		
	House I	House II	House III
Gross Annual Value (GAV) ER is the GAV of house property ER = Higher of MV and FR, but restricted to SR	3,50,000	3,60,000	3,75,000
Less: Municipal taxes (paid by the owner during the previous year)	36,000	28,800	19,800
Net Annual Value (NAV)	3,14,000	3,31,200	3,55,200
Less: Deductions under section 24			
(a) 30% of NAV	94,200	99,360	1,06,560
(b) Interest on borrowed capital	-	55,000	1,75,000
Income from house property	2,19,800	1,76,840	73,640

Ganesh can opt to treat any two of the above house properties as self-occupied OPTION 1 (House I and II- self-occupied and House III – deemed to be let out) If House I and II are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in Rs.
House I (Self-occupied)	Nil
House II (Self-occupied) (No interest deduction)	Nil
House III (Deemed to be let-out)	73,640
Income from house property	73,640

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out) If House I and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in Rs.
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied) (No interest deduction)	Nil
Income from house property	1,840

OPTION 3 (House II and III – self-occupied and House I – deemed to be let out) If House II and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in Rs.
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House I (Deemed to be let-out)		2,19,800
House II (Self-occupied) (No interest deduction)		-
House III (Self-occupied) (No interest deduction)		-
Income from house property		19,800

Since Option 1 is most beneficial, Ganesh should opt to treat House I and II as self-occupied and House III as deemed to be let out. His income from house property would be ₹ 73,640 for the A.Y. 2024-25 under default tax regime under section 115BAC.

Question 14: illustration

Prem owns a house in Madras. During the previous year 2023-24, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2019 for acquiring the property. Interest on loan paid during the previous year 2023-24 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y.2024-25 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be Prem's income from house property under the default tax regime?

Answer 14

There are two units of the house. Unit I with 2/3rd area is used by Prem for self-occupation throughout the year and no other benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y. 2022-23

Particulars		Amount in Rs.	
Unit I (2/3rd area – self-occupied)			
Annual Value			Nil
Less:	Deduction under section 24(b)2/3rd of Rs. 1,20,000		80,000
Income from Unit I (self-occupied)			(80,000)
Unit II (1/3rd area – let out)			
Computation of GAV			
Step 1	Compute ER		
	ER = Higher of MV and FR, restricted to SR However, in this case, SR of Rs. 1,10,000 (1/3rd of Rs. 3,30,000) is more than the higher of MV of Rs. 1,00,000 (1/3rd of Rs. 3,00,000) and FR of Rs. 90,000 (1/3rd of Rs. 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	
Step 2	Compute actual rent received/ receivable Rs. 8,000X 12 = Rs. 96,000	96,000	

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Step 3	Compare ER and Actual rent received/receivable		
Step 4	GAV is the higher of ER and actual rent received/receivable i.e. higher of Rs. 1,00,000 and Rs. 96,000	1,00,000	
Gross Annual Value(GAV)			1,00,000
Less:	Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3 rd of (10% of Rs. 3,00,000) = Rs. 30,000/3 =Rs.10,000		10,000
Net Annual Value(NAV)			90,000
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of Rs. 90,000	27,000	
	(b) Interest paid on borrowed capital (relating to let out portion) 1/3 rd of Rs. 1,20,000	40,000	67,000
Income from Unit II (let-out)			23,000
Loss under the head "Income from house property" = (₹80,000) + Rs. 23,000 = (₹57,000)			

Question 15: illustration

Mr. Anand sold his residential house property in March, 2023.

In June, 2023, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2017 to March 2019. He could not realise two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2019-20.

Further, he had let out his property from April, 2019 to February, 2023 to Mr. Satish. In April, 2021, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2023, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2021 to February, 2023.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

Answer 15

Since the unrealised rent was recovered in the P.Y.2023-24, the same would be taxable in the A.Y.2024-25 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2023-24, and hence the same would be taxable in the A.Y.2024-25 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2024-25.

Computation of income from house property of Mr. Anand for A.Y. 2022-23

Particulars	Rs.
(i) Unrealised rent recovered	10,000
(ii) Arrears of rent received	69,000
	79,000
Less: Deduction@30%	23,700

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Income from house property	55,300
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Question 16 illustration

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000@10% taken on 1.4.2022 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000@12% on 1.10.2022 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y.2024-25, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 16**Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2024-25**

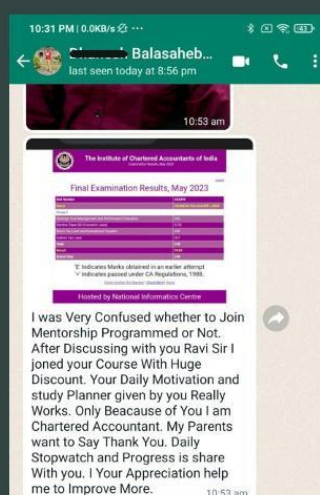
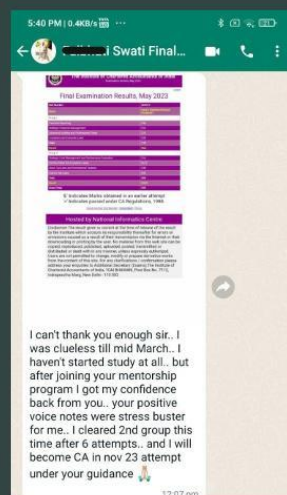
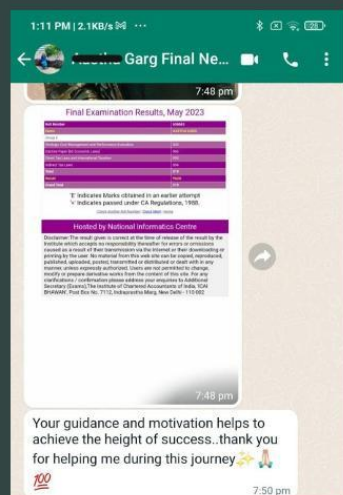
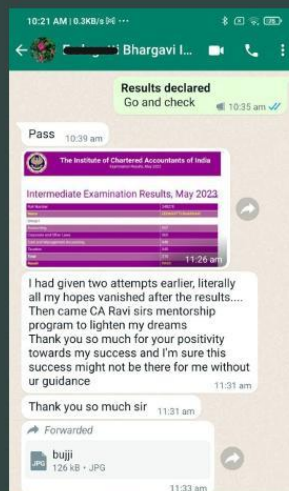
Particulars	Rs.
I Interest on loan taken for acquisition of residential house property at Calcutta	
Rs. 50,00,000 x 10% = Rs. 5,00,000	
Ms. Aparna's share = 50% of Rs. 5,00,000 = Rs. 2,50,000	
Restricted to Rs. 2,00,000	2,00,000
II Interest on loan taken for repair of flat at Pune	
Rs. 3,00,000 x 12% = Rs. 36,000	
Restricted to Rs. 30,000	30,000
Total interest	2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

Computation of deduction u/s 24(b) available to Ms. Dimple for A.Y.2022-23

Particulars	Rs.
Interest on loan taken for acquisition of residential property at house Calcutta	
Rs. 50,00,000 x 10% = Rs. 5,00,000	
Ms. Dimple's share = 50% of Rs. 5,00,000 = Rs. 2,50,000	
Restricted to Rs. 2,00,000	2,00,000
Deduction under section 24(b)	2,00,000

Paper 3 - Taxation

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Paper 3 - Taxation

Chapter 3.3 Profits and gains of business or profession

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul'2 1	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q4, Q11	Q5, Q9, Q10	Q6		Q8	Q7	Q3, Q12		Q2	
RTP			Q13								Q1	
Q & A												
MTP	Q3		Q8		Q4		Q5, Q7					
PYP		Q11		Q13								
RTP	Q12	Q9	Q6	Q1	Q2							Q10

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Mr. A engaged in the retail trading of toys, had acquired a motor vehicle - A for ` 4 lakhs on 20.08.2020, put to use on 04.10.2021 and another motor vehicle - B for ` 3 lakhs on 19.02.2021, put to use on 03.09.2021. On 01.04.2021, Mr. A took a vehicle loan of ` 5 lakhs at 10% p.a. and acquired the motor vehicle - C for ` 5 lakhs on 31.05.2021, put to use on 30.06.2021. On 30.07.2022 the same vehicle - C was sold for ` 5.50 lakhs and reacquired it back on 28.08.2022 for ` 6 lakhs. Assuming the above mentioned assets are the only assets in the block of assets for Mr. A, what would be its total depreciation claim under section 32 for P.Y. 2022-23? (RTP May '23)

- (a) ` 1,66,594
(b) ` 1,62,094
(c) ` 1,37,438
(d) ` 1,60,500

Ans: (c)

2. M/s ABC, an eligible assessee, following mercantile system of accounting, carrying on eligible business under section 44AD provides the following details:

- ♦ Total turnover for the financial year 2022-23 is ₹ 130 lakh
- ♦ Out of the above:
 - ₹ 25 lakh received by A/c payee cheque during the financial year 2022-23;
 - ₹ 50 lakh received by cash during the financial year 2022-23;
 - ₹ 25 lakh received by A/c payee bank draft before the due date of filing of return;
 - ₹ 30 lakh not received till due date of filing of return.

What shall be the amount of deemed profits of M/s ABC under section

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Paper 3 - Taxation**44AD (1) for A.Y. 2023 -24?**

- (a) ₹10.4 lakh
- (b) ₹7.0 lakh
- (c) ₹5.5 lakh
- (d) ₹9.4 lakh (MTP 2 Marks April '23)

Ans: (d)

3. **Mrs. Bhawna, wife of Mr. Sonu, is a partner in a firm. Her capital contribution of ₹ 10 lakhs to the firm as on 31.3.2021 included ₹ 6 lakhs contributed out of gift received from Sonu. On 1.4.2021, she further invested ₹ 2 lakh out of gift received from Sonu. The firm paid interest on capital of ₹ 1,20,000 and share of profit of ₹ 1,00,000 during the F.Y.2021-22. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct?**

- (a) Share of profit is exempt but interest on capital is taxable in the hands of M₹ Bhawna
- (b) Share of profit is exempt but interest of ₹ 80,000 is includible in the income of Mr. Sonu and interest of ₹ 40,000 is includible in the income of M₹ Bhawna
- (c) Share of profit is exempt but interest of ₹ 72,000 is includible in the income of Mr. Sonu and interest of ₹ 48,000 is includible in the income of M₹ Bhawna
- (d) Share of profit to the extent of Rs 60,000 and interest on capital to the extent of ₹ 72,000 is includible in the hands of Mr. Sonu (MTP 2 Marks March 22)

Ans : (b)

4. **M/s ABC & Co., a firm carrying on business, furnishes the following particulars for the P.Y. 2018-19.**

Particulars ₹

Book profits (before setting of unabsorbed depreciation and brought forward business loss) 2,50,000 Unabsorbed depreciation of P.Y.2012-13 1,20,000
Brought forward business loss of P.Y.2017-18 2,00,000

Compute the amount of remuneration allowable under section 40(b) from the book profit.

- (a) ₹ 2,25,000
- (b) ₹1,80,000
- (c) ₹1,50,000
- (d) ₹1,17,000 (MTP 2 Marks, April'19)

Ans : (b)

5. **Mr. Kunal is a doctor by profession engaged in his medical practice from last 15 years. His gross receipts from the profession in FY 2015-16, 2016-17, 2017-18 were ₹2,00,000, ₹16,00,000 and ₹18,50,000 respectively. Further, Kunal follows cash system of accounting. Determine which of the following books of accounts and documents are required to be kept and maintained by Kunal.**

- (i) **Cash Book**
- (ii) **Journal**
- (iii) **Inventory of the stock of drugs, medicines, etc.**
- (iv) **A daily case register**
 - (a) (I) and (ii)
 - (b) (I), (ii), (iii) & (iv)
 - (c) (I), (iii) & (iv)
 - (d) None of the above (MTP 1 Mark, Oct'19)

Ans : (c)

6. **Mrs. Shavian, wife of Mr. Anurag, is a partner in a firm. Her capital contribution of**

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Paper 3 - Taxation

₹5 lakhs to the firm as on 1.4.2019 included ₹3.5 lakhs contributed out of gift received from Anurag. On 10.4.2019, she further invested ₹2 lakhs out of gift received from Anurag. The firm paid interest on capital of ₹ 50,000 and share of profit of ₹ 60,000 during the F.Y.2019-20. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct?

- Share of profit is exempt but interest on capital is taxable in the hands of M^{rs} Shavian.
- Share of profit is exempt but interest of ₹ 39,286 is includible in the income of Mr. Anurag and interest of ₹ 10,714 is includible in the income of M^{rs} Shivani.
- Share of profit is exempt but interest of ₹ 35,000 is includible in the income of Mr. Anurag and interest of ₹ 15,000 is includible in the income of M^{rs} Shivani.
- Share of profit to the extent of ₹ 42,000 and interest on capital to the extent of ₹ 35,000 is includible in the hands of Mr. Anurag.

(MTP 2 Marks, May'20)

Ans : (c)

7. **K is a working partner in a firm on behalf of his HUF and the HUF has contributed ₹3,00,000 as its capital contribution. Apart from this, K has given a loan of ₹ 50,000 to the firm in his individual capacity. The firm pays interest as per market rate of 15% per annum on capital as well as loan. Compute the amount of interest that shall be allowed to the firm while calculating its business income assuming that the interest is authorized by the partnership deed.**

- ₹ 42,000
- ₹ 51,000
- ₹ 52,500
- ₹ 43,500

(MTP 2 Marks, Nov'21)

Ans : (d)

8. **Mr. C aged 35 years is a working partner in M/s BCD, a partnership firm, with equal profit sharing ratio. During the P.Y. 2020-21, the firm has paid remuneration to Mr. B, Mr. C and Mr. D, being the working partners of the firm, of ₹ 2,00,000 each. The firm has paid interest on capital of ₹ 1,20,000 in total to all the three partners and the same is within the prescribed limit of 12%. The firm had a loss of ₹ 1,12,000 after debiting remuneration and interest on capital.**

Note – Remuneration and interest on capital is authorized by the partnership deed. You, being the CA of Mr. C, are in the process of computing his total income. What would be his taxable remuneration from the firm?

- ₹ 2,00,000
- ₹ 1,51,600
- ₹ 1,27,600
- ₹ 1,50,000

(MTP 2 Marks, April'21)

Ans: (c)

9. **Match the following to their respective rate of depreciation - (MTP 1 Mark, Oct'19)**

L.	Pollution control equipment	1.	10%
M.	Commercial building	2.	40%
N.	Oil Wells	3.	100%
		4.	15%

Select the correct Answer from the options given below:

	L.	M.	N.
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(a)	2	1	4
(b)	4	2	1
(c)	2	4	1
(d)	3	1	4

Ans : (a)

10. Mr. Shahid, a wholesale supplier of dyes, provides you with the details of the following cash payments he made throughout the year –
- 12.06.2018: loan repayment of ₹ 27,000 taken for business purpose from his friend Kunal. The repayment also includes interest of ₹ 5,000.
 - 19.08.2018: Portable dye machinery purchased for ₹ 15,000. The payment was made in cash in three weekly instalments.
 - 26.01.2019: Payment of ₹ 10,000 made to electrician due to unforeseen electric circuit at shop
 - 28.02.2019: Purchases made from unregistered dealer for ₹ 13,500
- What will be disallowance under 40A (3), if any, if Mr. Shahid opts to declare his income as per the provisions of section 44AD?
- (a) ₹ 18,500
 (b) ₹ 28,500
 (c) ₹ 13,500
 (d) NIL (MTP 2 Marks, Oct'19)

Ans : (d)

11. Which of the following persons are compulsorily required to get their accounts audited u/s 44AB of the Income-tax Act, 1961?
- (i) An assessee, who has not opted for presumptive taxation and his turnover during the P.Y. is ₹2 crores.
- (ii) A professional whose gross receipts during the previous year amounts to ₹50 lakhs, who declares his profits and gains from profession u/s 44ADA.
- (iii) An assessee having turnover of ₹1.5 crore, who declares his profits and gains from business u/s 44AD.
- (iv) A lawyer having gross receipts of ₹40 lakhs during the P.Y. who claims his profits and gains from the legal profession to be 40% of the gross receipts.
- (v) An individual who opts out of the presumptive taxation scheme u/s 44AD during the P.Y., however, his total income for the said year is ₹2,00,000.
- (a) (I), (iv)
 (b) (I), (iv), (v)
 (c) (I), (ii), (iv)
 (d) (iv), (v) (MTP 2 Marks, March'19)

Ans : (a)

12. Mr. Raja, a proprietor, commenced operation of the business of a new three star hotel in Mumbai on 1.7.2021. He had made a total investment of ₹ 7.58 crores till 30.6.2021. Out of total investment of ₹ 7.58 crores, ₹ 1.58 crores was used for purchase of land in P.Y.2020-21. ₹ 4.70 crores was used for constructing Hotel and balance of ₹ 1.30 used for purchasing the furniture in P.Y. 2021-22. He wants to avail the benefit of deduction under section 35AD as he satisfied with all the conditions prescribed u/s 35AD. His profit and gains from the business for P.Y. 2021-22 is ₹ 50 lakhs before claiming deduction u/s 35AD. He wants to file his income-tax return on 12.12.2022. How much deduction Mr. Raja can claim for A.Y. 2022-23 and the losses which he can carry forward to A.Y. 2023 -24?
- (a) He can claim the deduction of ₹ 7.58 crores from his business income but he would not be able to carry forward the business loss of ₹ 7.08 crores

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- (b) He can claim the deduction of ₹ 6.00 crores from his business income and can carry forward the business loss of ₹ 5.50
- (c) He can claim the deduction of ₹ 6.00 crores from his business income but cannot carry forward the business loss of ₹ 5.50
- (d) He can claim the deduction of ₹7.58 crores from his business income and can carry forward the business loss of ₹ 7.08 crores **(MTP 2 Marks April 22)**

Ans: (c)

13. **M/s ABC, an eligible assessee, following mercantile system of accounting, carrying on eligible business under section 44AD provides the following details:**

- ◆ **Total turnover for the financial year 2018-19 is ₹ 130 lakh**
- ◆ **Out of the above:**
 - ₹ 25 lakh received by A/c payee cheque during the financial year 2018-19;
 - ₹ 50 lakh received by cash during the financial year 2018-19;
 - ₹ 25 lakh received by A/c payee bank draft before the due date of filing of return;
 - ₹ 30 lakh not received till due date of filing of return.

Compute the amount of deemed profits of M/s ABC under section 44AD(1) for A.Y. 2019-20.

- (i) ₹ 10.4 lakh
 (j) ₹ 7.0 lakh
 (k) ₹ 5.5 lakh
 (l) ₹ 9.4 lakh **(RTP May '19)**

Ans: (d)**Question & Answers****Question 1**

Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21-09-2017, for the purpose of his business as per following details:

Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase. Determine the depreciation allowable on car for the A.Y. 2018-19, if this is the only asset in the block. Rate of depreciation may be taken at 15% If this car were to be used in the subsequent Assessment Year 2019-20 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961. (RTP Nov '19)

Answer 1

Particulars	.
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Since the car was put to use for more than 180 days in the P.Y.2017-18, full depreciation@15% is allowable on the actual cost of ₹15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2017-18 = 15% x ₹15,36,000 x 75% =	1,72,800
Written Down Value as on 1.4.2018 = ₹15,36,000 - ₹1,72,800 =	
₹13,63,200	
Depreciation for P.Y.2018-19 = 15% x ₹13,63,200 x 75% =	1,53,360

Note - As per section 17(5) of the CGST Act, 2017/Delhi GST Act, 2017, input tax credit would not be available in respect of motor vehicles except if they are used for making taxable supply of such vehicles or for transportation of goods or passengers or for imparting training on driving, flying navigating such vehicles. In this case, the question mentions that the car is the only asset in the block. In the absence of any information in the question to the contrary, it is logical to assume that the car is not used for making the above taxable supplies. Accordingly, input tax credit would not be available and hence,

1 As per section 49(4), in case where capital gains arise from subsequent sale of property, which was subject to tax under section 56(2)(x), the value taken into account for the purpose of section 56(2)(x) would be deemed to be the cost of acquisition.

GST would form part of actual cost of car. The above solution has been worked out accordingly.

However, input tax credit would be available if it is assumed that the car is used in making the above taxable supplies or in transportation of goods, the answer would be as follows –

Alternative Answer

Particulars	
Since the car was put to use for more than 180 days in the P.Y.2017-18, full depreciation@15% is allowable on the actual cost of ₹12 lakh (exclusive of GST of ₹3,36,000), assuming that input tax credit is available in respect of GST.	
Further, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2017-18 = 15% x ₹12,00,000 x 75% =	1,35,000
Written Down Value as on 1.4.2018 = ₹12,00,000 - ₹1,35,000 =	
₹10,65,000	
Depreciation for P.Y.2018-19 = 15% x ₹10,65,000 x 75% =	1,19,813

Question 2

Mr. Chirag, set up a manufacturing unit of Baking Soda in notified backward area of the State of Andhra Pradesh on 18th May, 2018. The following machineries (falling under 15% block) purchased by him during the previous year 2018-19.

	Amount (₹ lakhs)
(i) Machinery X, Machinery Y and Machinery Z from Sahaj Limited on credit (installed and usage started on 18th July, 2018, 25th July 2018 and 1st August 2018,	58

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	respectively). Payment is made on 15th April 2019 to Sahaj Limited by net banking.	
(ii)	Machinery L from Swayam Limited (installed on 8th August, 2018). The Invoice was paid through a cash payment on the same day.	35
(iii)	Machinery M (a second-hand machine) from Sunshine Limited on 18th December, 2018 (The payment for the purchase invoice was made through NEFT on 5th January, 2019)	15

Compute the depreciation allowance under section 32 of the Income-tax Act, 1961 for the assessment year 2019-20. (RTP May '20)

Answer 2

Computation of depreciation under section 32 for A.Y. 2019-20

Particulars	₹	₹
Machinery X, Machinery Y and Machinery Z acquired from Sahaj Ltd. (Since payment is made to Sahaj Ltd by way of use of ECS and the machineries were put to use for more than 180 days during the previous year, depreciation is allowable @15%)		58,00,000
Machinery L acquired from Swayam Ltd. in cash and installed on 8.8.2018 [Since payment of ₹ 35 lakhs is made otherwise than by account payee cheque/bank draft or use of ECS, the said amount will not be included in actual cost and hence, depreciation not allowable]		NIL
Second hand Machinery M from Sunshine Ltd on 18.12.2018 assuming it is installed and put to use in P.Y. 2018-19. [Since payment is made to Sunshine Ltd by way of use of ECS]		15,00,000
Actual Cost		73,00,000
Depreciation for P.Y.2018-19		
Depreciation@15% on Machineries X, Y and Z on ₹ 58 lakhs	8,70,000	
Depreciation@7.5% (50% of 15%) on ₹ 15 lakhs for Machinery M since it is put to use for less than 180 days	1,12,500	
	9,82,500	
Additional Depreciation@35% on ₹ 58 lakhs, since the machinery is acquired and installed for a manufacturing unit set up in a notified backward area in the state of Andhra Pradesh	20,30,000	
Additional depreciation is not allowable on second hand machinery	-	
Depreciation under section 32 for A.Y. 2019-20	30,12,500	

Question 3

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

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

You are required to compute:

- (i) **Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.**

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- (ii) **Allowable working partner salary for the assessment year 2018-19 as per section 40(b). (MTP 5 Marks, March'18)**

Answer 3

- (i) As per Explanation 3 to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit. In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partner. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		6,00,000
Less: Depreciation under section 32 (See note below)	NIL	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%)	60,000	60,000
Book Profit		5,40,000

Note: 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 ₹ 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 plant and machinery purchased on 15.7.2017 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.

- (ii) Salary actually paid to working partners = ₹ 20,000 × 2 × 12 = ₹ 4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits -

On the first ₹ 3,00,000 of book profit or in case of loss	₹ 1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y. 2018-19 in this case would be:

Particulars	₹
On the first ₹3,00,000 of book profit [(₹1,50,000 or 90% of ₹ 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (₹ 5,40,000 - ₹ 3,00,000)]	1,44,000
Maximum allowable partners' salary	4,14,000

Hence, allowable working partners' salary for the A.Y. 2018-19 as per the provisions of section 40(b)(v) is ₹ 4,14,000.

Question 4

Mr. Abhimanyu has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2020:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payment made to AB University, an approved University	15
(ii)	Payment made to Soya College	17

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(iii)	Payment made to IIT, Madras (under an approved programme for scientific research)	12
(iv)	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2020-21, while computing his income under the head "Profits and gains of business or profession". (MTP 4 Marks, Oct'20, RTP May 18)

Answer 4

Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of weighted deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
AB University, an approved University	15	35(1)(ii)	150% (100%)	22.5 15
Soya College [See Note 1]	17	-	NIL	NIL
IIT Madras (under an approved programme for scientific research)	12	35(2AA)	150% (100%)	18 12
In-house research [See Note 2]				
Capital expenditure - Purchase of Machinery	25	35(1)(iv) row 35(2)	100%	25
Deduction allowable under section 35				65.50 52

Notes: -

1. **Payment to Soya College:** Since the Question clearly mentions that AB University (mentioned in item (i)) is approved research institutions, it is logical to conclude that Siya College mentioned in item (ii) is not an approved research institution. Therefore, payment to Siya College would not qualify for deduction under section 35.
2. **Deduction for in-house research and development:** Only company assesses are entitled to weighted deduction @150% under section 35(2AB) in respect of expenditure on scientific research on in-house research and development facility. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction@100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.
(As per amendment sec 352AA & sec 35(1)(ii) the deduction limit is reduced from 150% to 100%)

Question 5

M/s. Moksh Enterprises, a sole proprietorship owns four machines, put in use for business in March, 2019. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2020 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2020 for ₹ 10,00,000. A second hand plant was bought for ₹ 6,10,000 on 30th December, 2020. You are required to:

- (iii) **Determine the claim of depreciation for Assessment Year 2021-22.**
- (iv) **Compute the capital gains liable to tax for Assessment Year 2021-22.**
- (v) **If Moksh Enterprises had sold the two machines in July, 2020 for ₹ 15,00,000, explain, will there be any difference in your above workings? (MTP 4 Marks, April'21 & Oct '23)**

Answer 5

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i. Computation of depreciation for A.Y.2021-22

Particulars	₹
W.D.V. of the block as on 1.4.2020	7,70,000
Add: Purchase of second hand plant during the year [in December, 2020]	6,10,000
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2020]	10,00,000
W.D.V of the block as on 31.03.2021	3,80,000
Depreciation @ 15% but restricted to 50% thereon. ₹ 3,80,000 X 7.5%	28,500
[Since the value of the block as on 31.3.2021 represents part of actual cost of second hand plant purchased in December, 2020, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%.	
Therefore, the depreciation allowable for the year is ₹ 28,500 being 7½% of ₹ 3,80,000]	

- ii. In the given case, no capital gains would arise, since the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block as increased by the actual cost of asset purchased during the year.
- iii. If the two machines are sold in July, 2020 for ₹ 15,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	₹	₹
Sale consideration		15,00,000
Less: W.D.V. of the machines as on 1.4.2020	7,70,000	
Purchase of second plant during the year	6,10,000	
		13,80,000
Short term capital gains		1,20,000

Question 6:

Mr. X commenced the business of operating goods vehicles on 1.4.2021. He purchased the following vehicles during the P.Y.2021-22. Compute his income under section 44AE for A.Y.2022-23.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2021
(2)	6,500	1	15.03.2022
(3)	10,000	3	16.07.2021
(4)	11,000	1	02.01.2022
(5)	15,000	2	29.08.2021

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(6)	15,000	1	23.02.2022
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Would your Answer change if the goods vehicles purchased in April, 2021 were put to use only in July, 2021? (RTP May'19)

Answer 6

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2021-22, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs. 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs. 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1) Number of Vehicles	(2) Date of purchase	(3) No. of months for which vehicle is owned	(4) No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2021	8	16
1	23.02.2022	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2021	12	24
1	15.3.2022	1	1
3	16.7.2021	9	27
1	02.1.2022	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2022-23 would be -Rs. 6,82,500, i.e., 55 × Rs. 7,500, being for other than heavy goods vehicle + 18 xRs. 1,000 x 15 ton being for heavy goods vehicle.

The Answer would remain the same even if the two vehicles purchased in April, 2021 were put to use only in July, 2021, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Question 7

Mr. Yogesh is in the business of operating goods vehicles. As on 1st April, 2020, he had the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Put to use during F.Y. 2020-21?
A	9000	2-6-2019	Yes
B	15000	15-5-2019	Yes
C	12000	4-8-2019	No (as under repairs)

During P.Y. 2020-21, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11500	20-4-2020	10-5-2020
E	14000	15-5-2020	18-5-2020

Compute his income under section 44AE of the Income-tax Act, 1961 for A.Y. 2021-22. (MTP 3 Marks April'21)

Answer 7

Since Mr. Yogesh does not own more than 10 vehicles at any time during the previous year 2020-21, he is eligible to opt for presumptive taxation scheme under section 44AE. As per section 44AE, ₹ 1,000 per ton of gross vehicle weight or unladen weight,

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as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Calculation of presumptive income as per section 44AE

Type of carriage	No. of months the vehicle is owned by Mr. Prakash	Rate per ton per month	Ton	Amount ₹
(1)	(2)	(3)	(4)	(5) [(2) x (3) x (4)]
Heavy goods vehicle				
Vehicle B (15,000 kgs) held throughout the year	12	₹ 1,000	15 (15,000/1,000)	1,80,000
Vehicle E (14,000 kgs) purchased on 15.5.2020	11	₹ 1,000	14 (14,000/1,000)	1,54,000
Goods vehicles other than heavy goods vehicle		Rate per month		
Vehicle A held throughout the year	12	₹ 7,500	-	90,000
Vehicle C held throughout the year	12	₹ 7,500	-	90,000
Vehicle D purchased on 20.4.2020	12	₹ 7,500	-	90,000
Total				6,04,000

The "put to use" date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Yogesh.

Question 8

Mr. Satinder is engaged in the business of plying goods carriages. On 1st April, 2018, he owns 10 trucks (out of which 5 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 17,000 kg each). On 5th May, 2018, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 8th May, 2018. This new vehicle could however be put to use only on 15th July, 2018. Compute the total income of Mr. Satinder for the assessment year 2019 - 20, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,50,500
Less : Operational expenses	5,25,500	
Depreciation as per section 32	1,85,000	
Other office expenses	17,000	7,27,500
Net Profit		5,23,000
Other business and non- business income		70,000

(MTP 5 Marks, March'19)

Answer 8

Section 44AE would apply in the case of Mr. Satinder since he is engaged in the

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business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year. Section 44AE provides for computation of business income of such assesses on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income. Mr. Santander's business income calculated applying the provisions of section 44AE is ₹13,82,500 [See Notes (1) & (2) below] and his total income would be ₹14,52,500. However, as per section 44AE (7), Mr. Satinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹5,23,000 instead of ₹13,82,500 and his total income would be ₹5,93,000.

Notes:

1. Computation of total income of Mr. Satinder for A.Y. 2019-20

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note (2) Below]	13,82,500	5,23,000
Other business and non-business income	70,000	70,000
Total Income	14,52,500	5,93,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount ₹
(1)	(2)		(3)	(1) x (2) x (3) = (4)
Heavy goods vehicle				
1 goods carriage up to 5th May	2	1,000	17 (17,000/1,000)	34,000
4 goods carriage held throughout the year	12	1,000	17 (17,000/1,000)	8,16,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 8th May	11	7,500	-	82,500
5 goods carriage held throughout the year	12	7,500	-	4,50,000
Total				13,82,500

Question 9

Mr. Chauhan is having a trading business and his Trading and Profit & Loss Account for the financial year 2017-18 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	1,00,000
To Gross profit	20,50,000		
Total	2,71,00,000	Total	2,71,00,000

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Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	20,50,000	Total	20,50,000

Other information:

- (i) He incurred expenditure on furniture & fixtures of ₹ 35,000, which is paid in cash on 25.7.2017 to M/s Décor World.
- (ii) Depreciation allowable ₹ 40,000 [excluding depreciation on furniture & fixtures refer in (i) above] as per Income-tax Rules, 1962.
- (iii) No deduction of tax at source on payment of interest on bank loan has been made.
- (iv) Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income. Further, employees contribution of ₹ 25,000 was also deposited after the due date of filing return of income.

Compute business income of Mr. Chauhan for the Assessment Year 2018-19. (RTP Nov '18)

Answer 9

Computation of Business Income of Mr. Chauhan for the A.Y. 2018-19

Particulars	₹	₹
Net profit as per Profit and Loss Account		11,50,000
Add: Expenses not deductible		
Donation to Prime Minister Relief Fund (Refer Note 1)	1,00,000	
Provision for bad debts (Refer Note 2)	50,000	
Family planning expenditure incurred on employees (Refer Note 3)	20,000	
Depreciation as per Profit and Loss Account	30,000	
Income-tax (Refer Note 4)	1,00,000	
Employer's contribution to recognized provident fund (Refer Note 5)	25,000	3,25,000
Less: Expense allowed		14,75,000
Depreciation as per Income-tax Rules, 1962 (Refer Note 6)		40,000
Add: Employee's contribution included in income as per Section 2(24)(x) (Refer Note 7)		14,35,000
		25,000
Business Income		14,60,000

Notes:-

- (1) Donation to Prime Minister Relief Fund is not allowed as deduction from the business income, since it is not incurred wholly and exclusively for business. It is allowed as deduction under section 80G from the gross total income.
- (2) Provisions for bad debts is allowable as deduction under section 36(1)(viiia) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Chauhan.
- (3) Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to

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a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Chauhan.

- (4) Income-tax paid is not allowable as deduction as per the provisions of section 40(a)(ii).
- (5) Since Mr. Chauhan's contribution (Employer's Contribution) to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B, in computing business income of A.Y. 2018-19.
- (6) 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 ₹ 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 furniture & fixtures would not be allowed, since payment exceeding ₹ 10,000 (₹ 35,000 in this case) is made in cash. Therefore, no adjustment is required to be made in the amount of depreciation computed as per Income-tax Rules, 1962, since such amount does not include depreciation on furniture & fixtures.
- (7) Employee's contribution is includible in the income of the employer by virtue of Section 2(24)(x). The deduction for the same is not provided for as it was deposited after the due date under the Provident Fund Act.
- (8) TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Question 10

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

M/s XY & Co., a partnership firm, is engaged in the business of operating goods vehicles and computes its income on presumptive basis under section 44AE. Since the income is computed under section 44AE, no further deduction of any kind is allowable from the income so computed. (RTP Nov '23)

Answer 10

The statement is incorrect.

If the income is computed under presumptive taxation under section 44AE, deduction allowable under section 30 to 38 shall be deemed to have been given full effect to and no further deduction shall be allowed. However, in case of firm, salary and interest paid to partners is deductible subject to the conditions and limits prescribed in section 40(b).

Question 11

Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21-09-2017, for the purpose of his business as per following details:

Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase. Determine the depreciation allowable on car for the A.Y. 2018-19, if this is the only asset in the block. Rate of depreciation may be taken at 15% If this car were to be used in the

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Paper 3 - Taxation

subsequent Assessment Year 2019-20 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961. (PYP 4 Marks, Nov'18)

Answer 11

Particulars	
Since the car was put to use for more than 180 days in the P.Y.2017-18, full depreciation@15% is allowable on the actual cost of ₹15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2017-18 = $15\% \times ₹15,36,000 \times 75\%$	1,72,800
=	
Written Down Value as on 1.4.2018 = ₹15,36,000 – ₹1,72,800 =	
₹13,63,200	
Depreciation for P.Y.2018-19 = $15\% \times ₹13,63,200 \times 75\%$	1,53,360
=	

Note - As per section 17(5) of the CGST Act, 2017/Delhi GST Act, 2017, input tax credit would not be available in respect of motor vehicles except if they are used for making taxable supply of such vehicles or for transportation of goods or passengers or for imparting training on driving, flying navigating such vehicles. In this case, the question mentions that the car is the only asset in the block. In the absence of any information in the question to the contrary, it is logical to assume that the car is not used for making the above taxable supplies. Accordingly, input tax credit would not be available and hence,

1 As per section 49(4), in case where capital gains arise from subsequent sale of property, which was subject to tax under section 56(2)(x), the value taken into account for the purpose of section 56(2)(x) would be deemed to be the cost of acquisition.

GST would form part of actual cost of car. The above solution has been worked out accordingly.

However, input tax credit would be available if it is assumed that the car is used in making the above taxable supplies or in transportation of goods, the answer would be as follows –

Alternative Answer

Particulars	
Since the car was put to use for more than 180 days in the P.Y.2017-18, full depreciation@15% is allowable on the actual cost of ₹12 lakh (exclusive of GST of ₹3,36,000), assuming that input tax credit is available in respect of GST.	
Further, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2017-18 = $15\% \times ₹12,00,000 \times 75\% =$	1,35,000
Written Down Value as on 1.4.2018 = ₹12,00,000 – ₹1,35,000 =	
₹10,65,000	
Depreciation for P.Y.2018-19 = $15\% \times ₹10,65,000 \times 75\% =$	1,19,813

Question 12

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Paper 3 - Taxation

Mr. Abhimanyu has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2020:

Sl. No.	Particulars	₹ (in lakhs)
(I)	Payment made to AB University, an approved University	15
(ii)	Payment made to Soya College	17
(iii)	Payment made to IIT, Madras (under an approved programme for scientific research)	12
(iv)	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2020-21, while computing his income under the head "Profits and gains of business or profession". (RTP May 18)

Answer 12

Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of weighted deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
AB University, an approved University	15	35(1)(ii)	150% (100%)	22.5 15
Soya College [See Note 1]	17	-	NIL	NIL
IIT Madras (under an approved programme for scientific research)	12	35(2AA)	150% (100%)	18 12
In-house research [See Note 2]				
Capital expenditure - Purchase of Machinery	25	35(1)(iv) row 35(2)	100%	25
Deduction allowable under section 35				65.50 52

Notes: -

3.Payment to Soya College: Since the Question clearly mentions that AB University (mentioned in item (I)) is approved research institutions, it is logical to conclude that Siya College mentioned in item (ii) is not an approved research institution. Therefore, payment to Siya College would not qualify for deduction under section 35.

4.Deduction for in-house research and development: Only company assesses are entitled to weighted deduction @150% under section 35(2AB) in respect of expenditure on scientific research on in-house research and development facility. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction@100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

(As per amendment sec 352AA & sec 35(1)(ii) the deduction limit is reduced from 150% to 100%)

Question 13

Mr. Yogesh is in the business of operating goods vehicles. As on 1st April, 2020, he had the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Put to use during F.Y. 2020-21?
---------	--------------------------------	------------------	---------------------------------

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Paper 3 - Taxation

A	9000	2-6-2019	Yes
B	15000	15-5-2019	Yes
C	12000	4-8-2019	No (as under repairs)

During P.Y. 2020-21, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11500	20-4-2020	10-5-2020
E	14000	15-5-2020	18-5-2020

Compute his income under section 44AE of the Income-tax Act, 1961 for A.Y. 2021-22. (PYP 4 Marks Nov 19)

Answer 13

Since Mr. Yogesh does not own more than 10 vehicles at any time during the previous year 2020- 21, he is eligible to opt for presumptive taxation scheme under section 44AE. As per section 44AE, ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Calculation of presumptive income as per section 44AE

Type of carriage	No. of months the vehicle is owned by Mr. Prakash	Rate per ton per month	Ton	Amount ₹
(1)	(2)	(3)	(4)	(5) [(2) x (3) x (4)]
Heavy goods vehicle				
Vehicle B (15,000 kgs) held throughout the year	12	₹ 1,000	15 (15,000/1,000)	1,80,000
Vehicle E (14,000 kgs) purchased on 15.5.2020	11	₹ 1,000	14 (14,000/1,000)	1,54,000
Goods vehicles other than heavy goods vehicle		Rate per month		
Vehicle A held throughout the year	12	₹ 7,500	-	90,000
Vehicle C held throughout the year	12	₹ 7,500	-	90,000
Vehicle D purchased on 20.4.2020	12	₹ 7,500	-	90,000
Total				6,04,000

The "put to use" date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Yogesh.

Section - B

Question 1

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Paper 3 - Taxation

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2022:

	(` in lacs)
WDV of Plant and Machinery on 31.3.2021	30
Depreciation including additional depreciation for P.Y. 2020-21	4.75
New machinery purchased on 1-9-2021	10
New machinery purchased on 1-12-2021	8
Computer purchased on 3-1-2022	4

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2021 and computer have been installed in the office.
- During the year ended 31-3-2021, a new machinery had been purchased on 31-10-2020, for Rs. 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2022. Assume that he does not opt for section 115BAC.

Answer 1

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2022

Particulars	Plant & Machinery (` in lacs)	Computer(` in lacs)
Written down value (as on 31.3.2021)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2020-21	4.75	-
Opening balance as on 1.4.2021	25.25	
Add: Actual cost of new assets acquired during the year New machinery purchased on 1.9.2021	10.00	-
New machinery purchased on 1.12.2021	8.00	-
Computer purchased on 3.1.2022	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2022)	43.25	4.00

Computation of Depreciation for A.Y. 2022-23

	Particulars	Plant & Machinery (Rs. in lacs)	Computer (Rs. in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	WDV of plant and machinery(`	3.79	-

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	25.25 lacs x 15%)		
	New Machinery purchased on 1.9.2021 (` 10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2021 (` 10 lakhs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2020 and put to use for less than 180 days in the P.Y. 2020-21 (Rs. 10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	Normal Depreciation		
	New machinery purchased on 1.12.2021 [$\text{` 8 lacs} \times 7.5\%$ (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2022 [$\text{` 4 lacs} \times 20\%$ (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	8.89	0.80

Notes:

- (1) As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia, -

- (i) any office appliances or road transport vehicles;
 - (ii) any machinery or plant installed in, inter alia, office premises. In view of the above provisions, additional depreciation cannot be claimed in respect of -
 - (i) Machinery purchased on 1.12.2021, installed in office and
 - (ii) Computer purchased on 3.1.2022, installed in office.
- (2) Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.

Hence, in this case, the balance additional depreciation@10% (i.e., Rs. 1 lakhs, being 10% of Rs. 10 lakhs) in respect of new machinery which had been purchased during the previous year 2020-21 and put to use for less than 180 days in that year can be claimed in P.Y. 2021-22 being immediately succeeding previous year.

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Paper 3 - Taxation

Question 2

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the assessment year 2022-23, assuming that he does not opt for section 115BAC:

(₹ in lacs)

- (i) WDV of block as on 31.3.2021 (15% rate) 50
- (ii) Depreciation for P.Y. 2020-21 7.50
- (iii) New machinery purchased on 12-10-2021 10
- (iv) Machinery imported from Colombo on 12-4-2021.9
This machine had been used only in Colombo earlier and the assessee is the first user in India.
- (v) New computer installed in generation wing unit on 15-7-2021 2 All assets were purchased by A/c payee cheque.

Answer 2

Computation of depreciation under section 32 for A.Y.2022-23

Particulars	Rs.	Rs.
Normal Depreciation		
Depreciation@15% on Rs. 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2021 of Rs. 50,00,000 – Depreciation for P.Y. 2020-21 of Rs. 7,50,000+ Purchase cost of imported machinery of Rs. 9,00,000]	7,72,500	
Depreciation@7.5% on Rs. 10,00,000, being new machinery put to use for less than 180 days	75,000	
	8,47,500	
Depreciation@40% on computers purchased Rs. 2,00,000	80,000	9,27,500
Additional Depreciation (Refer Note below)		
Additional Depreciation@10% of Rs. 10,00,000 [being actual cost of new machinery purchased on 12-10-2021]	1,00,000	
Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of Rs. 2,00,000]	40,000	1,40,000
Depreciation on Plant and Machinery		10,67,500

Note: -

The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant. Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2021, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2022-23. The balance additional depreciation would be allowed in the next year. However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

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Paper 3 - Taxation

Question 3

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the Assessment Year 2022-23.

- (i) Construction of school building in compliance with CSR activities amounting to Rs. 5,60,000.
- (ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to Rs. 4,50,000.
- (iii) Interest on loan paid to Mr. X (a resident) Rs. 50,000 on which tax has not been deducted. The sales for the previous year 2020-21 was Rs. 202 lakhs. Mr. X has not paid the tax, if any, on such interest.
- (iv) Commodities transaction tax paid Rs. 20,000 on sale of bullion.

Answer 3

Allow ability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

- (i) **Construction of school building in compliance with CSR activities**

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income. However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall **not** be allowed as deduction under section 37.

Accordingly, the amount of Rs. 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall **not** be allowed as deduction under section 37.

- (ii) **Purchase of building for setting up and operating a warehousing facility for storage of food grains**

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD @100% in respect of amount of Rs. 4,50,000 invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (P.Y.2021-22, in this case), if Mr. Manav does not opt for section 115BAC.

Therefore, the deduction under section 35AD while computing business income of such specified business would be Rs. 4,50,000, if Mr. Manav opts for section 35AD.

- (iii) **Interest on loan paid to Mr. X (a resident) Rs. 50,000 on which tax has not been deducted**

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2020-21 exceeds Rs. 100 lacs. Therefore, Rs. 15,000, being 30% of Rs. 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of Rs. 50,000 paid by it to Mr. X. The balance Rs. 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

- (iv) **Commodities transaction tax of Rs. 20,000 paid on sale of bullion**
Commodities transaction tax paid in respect of taxable commodities

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transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession". Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of Rs. 20,000 paid is allowable as deduction under section 36(1)(xvi).

Question 4

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

- (i) **For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.**
- (ii) **Where a person follows mercantile system of accounting, an expenditure of Rs. 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of Rs. 25,000 through a crossed cheque, Rs. 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.**
- (iii) **It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".**
- (iv) **The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft, on 27.12.2021 is a deductible expenditure under section 36.**
- (v) **Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.**
- (vi) **An existing assessee engaged in trading activities, can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.**

Answer 4

- (i) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (ii) **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding Rs. 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (iii) **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.
- (iv) **True:** Section 36(1) (ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under

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- a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- (vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power. In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(iia).

Question 5

Examine, with reasons, the allow ability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the Assessment Year 2022-23:

- (i) **Provision made on the basis of actuarial valuation for payment of gratuity Rs. 5,00,000. However, no payment on account of gratuity was made before due date of filing return.**
- (ii) **Purchase of oil seeds of Rs. 50,000 in cash from a farmer on a banking day.**
- (iii) **Tax on non-monetary perquisite provided to an employee Rs. 20,000.**
- (iv) **Payment of Rs. 50,000 by using credit card for fire insurance.**
- (v) **Salary payment of Rs. 4,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.**
- (vi) **Payment made in cash Rs. 30,000 to a transporter in a day for carriage of goods**

Answer 5

- (i) **Not allowable as deduction:** As per section 40A (7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:
- (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
 - (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.
- Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.
- Note:** It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.
- (ii) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A (3) is attracted even though the cash payment for the expense exceeds Rs. 10,000. Therefore, in the given case, disallowance under section 40A (3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

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- (iii) **Not allowable as deduction:** Income-tax of Rs. 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.
- (iv) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A (3) is not attracted in this case.
- (v) **Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of Rs. 4,00,000 outside India by a company without deduction of tax at source.
- (vi) **Allowable as deduction:** The limit for attracting disallowance under section 40A (3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A (3) is not attracted for payment of Rs. 30,000 made in cash to a transporter for carriage of goods.

Question 6

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (a) **Payment made in respect of a business expenditure incurred on 16th February, 2022 for Rs. 25,000 through a crossed cheque is hit by the provisions of section 40A(3).**
- (b) (i) **It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.**
(ii) **Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a non-resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.**

Answer 6

- (a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).
- (b) (i) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.
(ii) **True:** Section 40(a)(i) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

Question 7

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2022:

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Trading and Profit and Loss Account for the year ended 31.03.2022

Particulars	Rs.	Particulars	Rs.
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares(Short term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- (i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock	Rs. 9,000
Closing stock	Rs. 18,000

- (ii) Salary includes Rs. 10,000 paid to his brother, which is unreasonable to the extent of Rs. 2,000.
- (iii) The whole amount of printing and stationery was paid in cash by way of one time payment to Mr. Ramesh.
- (iv) The depreciation provided in the Profit and Loss Account Rs. 1,05,000 was based on the following information: The opening balance of plant and machinery (i.e., the written down value as on 31.3.2021 minus depreciation for P.Y. 2020-21) is Rs. 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2021 for Rs. 70,000. Two old plants were sold on 1.10.2021 for Rs. 50,000.
- (v) Rent and rates includes GST liability of Rs. 3,400 paid on 7.4.2022.
- (vi) Other general expenses include Rs. 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation under section 44AD and profits and gains as per normal provisions of the Act assuming he has not opted for the provisions of section 115BAC. Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Answer 7

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Paper 3 - Taxation

Computation of business income of Mr. Sivam for the A.Y. 2022-23

Particulars		Rs.	Rs.
Net Profit as per profit and loss account			50,000
Add: Inadmissible expenses/ losses			
Under valuation of closing stock		18,000	
Salary paid to brother – unreasonable [Section 40A(2)]		2,000	
Printing and stationery -whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds Rs. 10,000 [Section 40A(3)]		23,200	
Depreciation (considered separately)		1,05,000	
Short term capital loss on shares		8,100	
Donation to public charitable trust		2,000	1,58,300
			2,08,300
Less:	Items to be deducted: Under valuation of opening stock	9,000	
	Income from UTI [Chargeable under the head "Income from Other Sources"]	2,400	11,400
Less:	Business income before depreciation		1,96,900
	Depreciation (See Note 1)		66,000
			1,30,900

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., Rs. 1,12,11,500 x 6 / 100 = Rs. 6,72,690

Notes:

1. Calculation of depreciation

Particulars	Rs.
Opening balance of plant & machinery as on 1.4.2021 (i.e. WDV as on 31.3.2021 (-) depreciation for P.Y. 2020-21)	4,20,000
Add : Cost of new plant & machinery	70,000
	4,90,000
Less : Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2022	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

Question 8

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Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2021, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2021, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2021. This new vehicle could however be put to use only on 15th June, 2021. Compute the total income of Mr. Sukhvinder for the assessment year 2022-23, taking note of the following data:

Particulars	Rs.	Rs.
Freight charges collected		12,70,000
Less : Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000

Answer 8

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assessee on a presumptive basis. The income shall be deemed to be Rs. 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and Rs. 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is Rs. 13,72,500 (**See Notes 1 & 2 below**) and his total income would be Rs. 14,42,500.

However, as per section 44AE (7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be Rs. 4,45,000 instead of Rs. 13,72,500 and his total income would be Rs. 5,15,000.

Notes:

1. Computation of total income of Mr. Sukhvinder for A.Y. 2022-23

Particulars	Presumptive income Rs.	Where books are maintained Rs.
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount Rs.
(1)	(2)		(3)	(4)
Heavy goods vehicle				
1 goods carriage upto 1 st May	2	1,000	15 (15,000/1,000)	30,000

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5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6 th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
			Total	13,72,500

Question 9

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2022:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2022

Particulars	Rs.	Particulars	Rs.
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To SGST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2021-22:

- Administrative charges include Rs. 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is Rs. 36,000.
- The assessee paid Rs. 33,000 in cash to a transport carrier on 29.12.2021. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- A sum of Rs. 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- Bank term loan interest actually paid upto 31.03.2022 was Rs. 20,000 and the balance was paid in November 2022.
- Housing loan principal repaid during the year was Rs. 50,000 and it relates to residential property acquired by him in P.Y. 2020-21 for self-

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occupation. Interest on housing loan was Rs. 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.

- (vi) Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)	Rs.
WDV (as on 31.03.2021)	14,00,000
Less: Depreciation for P.Y. 2020-21	2,10,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000
Note: Ignore additional depreciation under section 32(1)(iia)	

Compute the total income of Mr. Raju for the assessment year 2022-23 assuming he has not opted for the provisions of section 115BAC.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

Answer 9

Computation of total income of Mr. Raju for the A.Y. 2022-23

Particulars		Rs.	Rs.
Profits and gains of business or profession			
Net profit as per profit and loss account			5,00,000
Add:	Excess commission paid to brother disallowed under section 40A(2)	10,000	
	Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is Rs. 35,000 in respect of payment to transport operators. Therefore, amount of Rs. 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
	Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) [See Note 1 below]	48,000	
	Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B	40,000	
	State GST penalty paid disallowed [See Note 2 below]	5,000	
	Depreciation debited to profit and loss account	2,00,000	3,03,000
			8,03,000

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Less:	Dividend from domestic companies [Chargeable to tax under the head "Income from Other Sources"]	15,000	
	Income from agriculture [Exempt under section 10(1)]	1,80,000	
	Depreciation under the Income-tax Act, 1961 (As per working note)	2,23,500	4,18,500
			3,84,500
	Income from house property		
	Annual value of self-occupied property	Nil	
Less:	Deduction u/s 24(b) – interest on housing loan	23,000	(23,000)
	Income from Other Sources		
	Dividend from domestic companies		15,000
	Gross Total Income		3,76,500
Less:	Deduction under section 80C in respect of Principal repayment of housing loan		50,000
	Total Income		3,26,500

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	Rs.
Depreciation @15% on Rs. 14 lakh (WDV as on 31.3.2021 of Rs. 14 lakh less Depreciation for P.Y. 2020-21 of Rs. 2.10 lakh plus assets purchased during the year and used for more than 180 days Rs. 2 lakh)	2,08,500
Depreciation @7.5% on Rs. 2 lakh (Assets used for < 180 days)	15,000
	2,23,500

Notes (Alternate views):

- It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same should not be added back as unexplained expenditure, but would be allowable as deduction while computing profits and gains of business and profession.
- Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed. Since the Question only mentions "GST penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be Rs. 3,21,500.

Question 10

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2022 are given below:

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Particulars	Rs.
Opening balance of car (only asset in the block) as on 1.4.2021 (i.e. WDV as on 31.3.2021 (-) depreciation for P.Y. 2020-21)	3,00,000
Opening balance of machinery as on 1.4.2021 (i.e., WDV as on 31.3.2021 (-) depreciation for P.Y. 2020-21)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are Rs. 50,000. The machines were used in coffee curing business operations. Compute the income arising from the above activities for the A.Y. 2022-23.

Answer 10

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962. As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Particulars	Rs.	Rs.	Rs.
Sale value of cured coffee			22,00,000
Less: Expenses for growing coffee		3,10,000	
Car expenses (80% of Rs. 50,000)		40,000	
Depreciation on car (80% of 15% of Rs. 3,00,000) [See Computation below]		36,000	
Total cost of agricultural operations		3,86,000	
Expenditure for coffee curing operations	3,00,000		
Add: Depreciation on machinery (15% of Rs. 15,00,000) [See Computation below]	2,25,000		
Total cost of the curing operations		5,25,000	
Total cost of composite operations			9,11,000
Total profits from composite activities			12,89,000
Business income (25% of above)			3,22,250
Agricultural income (75% of above)			9,66,750

Computation of depreciation for P.Y. 2021-22

Particulars	Rs.	Rs.
Car		
Opening balance as on 1.4.2021 (i.e., WDV as on 31.3.2021 (-) depreciation for P.Y. 2020-21)		3,00,000
Depreciation thereon at 15%	45,000	

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Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2021 (i.e., WDV as on 31.3.2021(-) depreciation for P.Y.2020-21)		15,00,00 0
Depreciation @ 15% for P.Y. 2021-22		2,25,000

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Question 11: illustration

Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

	Particulars	Rs.
(1)	Opening balance of plant and machinery as on 1.4.2021 (i.e., WDV as on 31.3.2021 after reducing depreciation for P.Y. 2020-21)	30,00,000
(2)	New plant and machinery purchased and put to use on 08.06.2021	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2021	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2022	3,00,000

Compute the amount of depreciation and additional depreciation as per the Income-tax Act, 1961 for the A.Y. 2022-23. Assume that all the assets were purchased by way of account payee cheque.

Answer 11

Computation of depreciation and additional depreciation for A.Y. 2022-23

Particulars	Plant & Machinery (15%)	Computer (40%)
Normal depreciation		
@15% on Rs. 50,00,000 [See Working Notes 1 & 2]	7,50,000	-
@7.5% (50% of 15%, since put to use for less than 180 days) on Rs. 8,00,000	60,000	-
@20% (50% of 40%, since put to use for less than 180 days) on Rs. 3,00,000	-	60,000
Additional Depreciation		
@20% on Rs. 20,00,000 (new plant and machinery put to use for more than 180 days)	4,00,000	-
@10% (50% of 20%, since put to use for less than 180 days) on Rs. 8,00,000	80,000	-
Total depreciation	12,90,000	60,000

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Working Notes:

(1) Computation of written down value of Plant & Machinery

Particulars	Plant & Machinery (₹)	Computer (₹)
Opening balance as on 1.4.2021	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2021	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2021	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2022	58,00,000	3,00,000

(2) Composition of plant and machinery included in the WDV

Particulars	Plant & Machinery (₹)	Computer (₹)
Plant and machinery put to use for 180 days or more [₹ 30,00,000 (WDV) + Rs. 20,00,000 (purchased on 8.6.2021)]	50,00,000	
Plant and machinery put to use for less than 180 days	8,00,000	-
Computers put to use for less than 180 days	-	3,00,000
	58,00,000	3,00,000

Notes:

- As per the second proviso to section 32(1)(ii), where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage. Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2021 and computer acquired and installed on 02.01.2022, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to Rs. 80,000, being 10% (i.e., 50% of 20%) of Rs. 8 lakh.
- As per third proviso to section 32(1)(ii), the balance additional depreciation of Rs. 80,000 being 50% of Rs. 1,60,000 (20% of Rs. 8,00,000) would be allowed as deduction in the A.Y.2023-24.
- As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, @20% of the actual cost of such machinery or plant. However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant installed in office premises, residential accommodation or in any guest house. Accordingly, additional depreciation is not allowable on computer installed in the office premises.

Question 12: illustration

A car purchased by Dr. Soman on 10.08.2018 for Rs. 5,25,000 for personal use is brought into professional use on 1.07.2021 by him, when its market value was Rs. 2,50,000. Compute the actual cost of the car and the amount of depreciation for the assessment year 2022-23 assuming the rate of depreciation to be 15%.

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Answer 12

As per section 43(1), the expression "actual cost" would mean the actual cost of asset to the assessee. The purchase price of Rs. 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e. Rs. 2,50,000) on the date when the asset is brought into professional use is not relevant. Therefore, amount of depreciation on car as per section 32 for the A.Y.2022-23 would be Rs. 78,750, being Rs. 5,25,000 x 15%.

Note: Explanation 5 to section 43(1) providing for reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use and later brought into professional use. It is not applicable in respect of other assets.

Question 13: illustration

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2021-22 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2022-23. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount Rs.
1.	Computer including computer software	27 Sept., 21	1 Oct., 21	35,000
2.	Computer UPS	2 Oct., 21	8 Oct., 21	8,500
3.	Computer printer	1 Oct., 21	1 Oct., 21	12,500
4.	Books (other than annual publications are of Rs. 12,000)	1 Apr., 21	1 Apr., 21	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 21	1 Apr., 21	3,00,000
6.	Laptop	26 Sep., 21	8 Oct., 21	43,000

Answer 13

Computation of depreciation allowable for A.Y.2022-23

Asset		Rate	Depreciation (₹)
Block 1	Furniture [See working note below]	10%	30,000
Block 2	Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books) [See working note below]	40%	34,500
Total depreciation allowable			64,500

Working Note:

Computation of depreciation

Block of Assets	Rs.
Block 1: Furniture – [Rate of depreciation - 10%]	
Put to use for more than 180 days [₹ 3,00,000 @ 10%]	30,000
Block 2: Plant [Rate of depreciation - 40%]	
Computer including computer software (put to use for more than 180 days) [₹ 35,000 @ 40%]	14,000
(b) Computer UPS (put to use for less than 180 days) [₹ 8,500 @	1,700

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20%] [See note below]	
Computer Printer (put to use for more than 180 days) [₹ 12,500 @40%]	5,000
(d) Laptop (put to use for less than 180 days) [₹ 43,000 @ 20%] [See note below]	8,600
Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [Rs. 13,000 @ 40%]	5,200
	34,500

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2021-22 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

Question 14: illustration

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2021. The manufacturing unit was set up on 1.5.2021. He commenced his manufacturing operations on 1.6.2021. The total cost of the plant and machinery installed in the unit is Rs. 120 crore. The said plant and machinery included second hand plant and machinery bought for Rs. 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of Rs. 15 crore. Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2022-23. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has not opted for the provisions of section 115BAC.

Answer 14

Computation of depreciation allowable for the A.Y. 2022-23 in the hands of Mr. Gamma

Particulars		Rs. in crore	
Total cost of plant and machinery		120.00	
Less: Used for Scientific Research (Note 1)		15.00	
		105.00	
Normal Depreciation at 15% on Rs. 105 crore			15.75
Additional Depreciation:			
Cost of plant and machinery		120.00	
Less: Second hand plant and machinery (Note 2)	20.00		
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction under section 35(1)(iv) read with section 35(2)(ia) (Note 2)	15.00	35.00	
Additional Depreciation at 20%		85.00	17.00

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Depreciation allowable for A.Y.2022-23			32.75
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Notes:

- As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
- As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia, –

- any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
- any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.

In view of the above provisions, additional depreciation cannot be claimed in respect of –

- Second hand plant and machinery;
- New plant and machinery purchased for scientific research relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).

Question 15: illustration

Mr. A, furnishes the following particulars for the P.Y.2021-22. Compute the deduction allowable under section 35 for A.Y.2022-23, while computing his income under the head "Profits and gains of business or profession".

	Particulars	Rs.
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house research and development facility as approved by the prescribed authority	
	(a) Revenue expenditure on scientific research	3,00,000
	(b) Capital expenditure (including cost of acquisition of land Rs. 5,00,000) on scientific research	7,50,000

Answer 15

Computation of deduction under section 35 for the A.Y.2022-23

Particulars	Rs.	Section	% of deduction	Amount of deduction (C)
Payment for scientific				

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research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(iia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land Rs. 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)	100%	2,50,000
Deduction allowable under section 35				13,00,000

Note: Only company assessee are entitled to deduction @100% under section 35(2AB) in respect of in-house research and development expenditure incurred. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction @100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

Question 16: illustration

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2021. He incurred capital expenditure of Rs. 80 lakh, Rs. 60 lakh and Rs. 50 lakh, respectively, on purchase of land and building during the period January, 2021 to March, 2021 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2021. The cost of land included in the above figures is Rs. 50 lakh, Rs. 40 lakh and Rs. 30 lakh, respectively. During the P.Y. 2021-22, he incurred capital expenditure of Rs. 20 lakh, Rs. 15 lakh & Rs. 10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head "Profits and gains of business or profession" for the A.Y. 2022-23 and the loss to be carried forward, assuming that Mr. A has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C - Deductions in respect of certain incomes".

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2022-23 is Rs. 16 lakhs, Rs. 14 lakhs and Rs. 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Answer 16

Computation of profits and gains of business or profession for A.Y. 2022-23

Particulars	Rs. (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31

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Less: Depreciation under section 32	
10% of Rs. 30 lakh, being (50 lakh – Rs. 30 lakh + Rs. 10 lakh)	3
Income chargeable under “Profits and gains from business or profession”	28

Computation of income/loss from specified business under section 35AD

Particulars	Food Grains	Sugar	Total
	Rs. (in lakhs)		
(A) Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD)	16	14	30
Less: Deduction under section 35AD			
(B) Capital expenditure incurred prior to 1.4.2021 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2021 (excluding the expenditure incurred on acquisition of land) = Rs. 30 lakh (Rs. 80 lakh – Rs. 50 lakh) and Rs. 20 lakh (Rs. 60 lakh – Rs. 40 lakh)	30	20	50
(C) Capital expenditure incurred during the P.Y. 2021-22	20	15	35
(D) Total capital expenditure (B + C)	50	35	85
(E) Deduction under section 35AD			
100% of capital expenditure (food grains/sugar)	50	35	85
Total deduction u/s 35AD for A.Y.2022-23	50	35	85
(F) Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2022-23 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.
- (iii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- (iv) Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2021-22.
- (v) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of Rs. 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of Rs. 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

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Question 17: illustration

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2021. He incurred capital expenditure of Rs. 50 lakh during the period January, 2021 to March, 2021 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2021. Further, during the P.Y. 2021-22, he incurred capital expenditure of Rs. 2 crore (out of which Rs. 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2022-23, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading "C - Deductions in respect of certain incomes". The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2022-23 is Rs. 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are Rs. 120 lakhs for the A.Y.2022-23. Also, assume that payments for capital expenditure were made by net banking.

Answer 17

Computation of profits and gains of business or profession for A.Y. 2022-23

Particulars	Rs.
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y.2021-22 (excluding the expenditure incurred on acquisition of land) = Rs. 200 lakh – Rs. 150 lakh	50 lakh
Capital expenditure incurred prior to 1.4.2021 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2021	50 lakh
Total deduction under section 35AD for A.Y.2022-23	100 lakh
Loss from the specified business of new hotel in Madurai	(75 lakh)
Profit from the existing business of running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45 lakh

Question 18: illustration

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil. Unit A commenced operation on 1.4.2020 and it claimed deduction of Rs. 100 lacs incurred on purchase of two buildings for Rs. 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2021-22. However, in February, 2022, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer in the hands of Mr. Arnav.

Answer 18

Since the capital asset, in respect of which deduction of Rs. 50 lacs was claimed

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under section 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2021-22, the deeming provision under section 35AD(7B) is attracted during the A.Y.2022-23.

Particulars	Rs.
Deduction allowed under section 35AD for A.Y.2021-22	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2021-22 [10% of Rs. 50 lacs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for A.Y.2022-23. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	Rs.
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2021-22 [10% of Rs. 50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000

Question 19: illustration

X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees. Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to Rs. 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

Answer 19

Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

Particulars	Rs.
Basic Salary	10,00,000
Dearness Allowance @40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of Rs. 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva) (10% of basic salary plus dearness pay = 10% of Rs. 14,00,000 = Rs. 1,40,000)	1,40,000
Excess contribution disallowed under section 40A(9)	60,000

Question 20: illustration

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2022 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2021-22, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

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	Particulars	Amount in Rs.
(1)	Salary to its employees (credited and paid in March, 2022)	12,00,000
(2)	Directors' remuneration (credited in March, 2022 and paid in April, 2022)	28,000

Would your Answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2022 at the time of payment and remitted the same in July, 2022?

Answer 20

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance u/s 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194J, would attract disallowance@30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y.2021-22, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for A.Y.2022-23 is as follows –

	Particulars	Amount paid in Rs.	Disallowance u/s 40(a)(ia) @30%
(1)	Salary [tax is deductible under section 192]	12,00,000	3,60,000
(2)	Directors' remuneration [tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)			3,68,400

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2022-23 at the time of payment and remitted to the Government, the amount of Rs. 8,400 would be allowed as deduction while computing the business income of A.Y. 2023-24. In case, assessee fails to deduct the whole or any part of tax on any such sum but is not deemed as assessee in default under the first proviso to section 201(1) by reason that such payee –

- (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

Has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed, it would be deemed that the assessee has deducted and paid the tax on such sum. The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee. Since the date of furnishing the return of income by the payee is taken to be the date on which the payer has deducted tax at source and paid the same, 30% of such expenditure/payment in respect of which the payer has failed to deduct tax at source shall be disallowed under section 40(a)(ia) in the year in which the said expenditure is incurred. However, 30% of such expenditure will be allowed as deduction in the subsequent year in which the return of income is furnished by the payee, since tax is deemed to have been deducted and paid by the payer in that year.

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Disallowance of any sum paid to a resident at any time during the previous year without deduction of tax under section 40(a)(ia) [Circular No.10/2013, dated 16.12.2013]

There have been conflicting interpretations by judicial authorities regarding the applicability of provisions of section 40(a)(ia), with regard to the amount not deductible in computing the income chargeable under the head 'Profits and gains of business or profession'. Some court rulings have held that the provisions of disallowance under section 40(a)(ia) apply only to the amount which remained payable at the end of the relevant financial year and would not be invoked to disallow the amount which had actually been paid during the previous year without deduction of tax at source.

Departmental View: The CBDT's view is that the provisions of section 40(a)(ia) would cover not only the amounts which are payable as on 31st March of a previous year but also amounts which are payable at any time during the year. The statutory provisions are amply clear and in the context of section 40(a)(ia), the term "payable" would include "amounts which are paid during the previous year".

The Circular has further clarified that where any High Court decides an issue contrary to the above "Departmental View", the "Departmental View" shall not be operative in the area falling in the jurisdiction of the relevant High Court.

Question 21: illustration

During the financial year 2021-22, the following payments/expenditure were made/ incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31.3.2021 was Rs. 99 lacs):

- (i) **Interest of Rs. 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;**
- (ii) **Rs. 10,00,000 was paid as salary to a resident individual without deduction of tax at source;**
- (iii) **Commission of Rs. 16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2021 without deduction of tax at source.**

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) of the Income-tax Act, 1961 assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

Answer 21

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

- (i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2020-21 exceeds Rs. 1 crore. Thus, in present case, since the turnover of the assessee is less than Rs. 1 crore, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.
- (ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed Rs. 1 crore in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at

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source would be disallowed.

- (iii) The obligation to deduct tax at source under section 194-H from commission paid in excess of Rs. 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2020-21 exceeds Rs. 1 crore. Thus, in present case, since the turnover of the assessee is less than Rs. 1 crore, he is not liable to deduct tax at source u/s 194-H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed Rs. 50 lakh during the P.Y. 2021-22. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Question 22: illustration

A firm has paid Rs. 7,50,000 as remuneration to its partners for the P.Y.2021-22, in accordance with its partnership deed, and it has a book profit of Rs. 10 lakh. What is the remuneration allowable as deduction?

Answer 22

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

Particulars	Rs.
On first Rs. 3 lakh of book profit [$3,00,000 \times 90\%$]	2,70,000
On balance Rs. 7 lakh of book profit [$7,00,000 \times 60\%$]	4,20,000
	6,90,000

The excess amount of Rs. 60,000 (i.e., Rs. 7,50,000 – Rs. 6,90,000) would be disallowed as per section 40(b)(v).

Question 23: illustration

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of Rs. 7,00,000 before deduction of the following items:

Salary of Rs. 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership). Depreciation on plant and machinery under section 32 (computed) Rs. 1,50,000.

Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is Rs. 5,00,000.

Compute:

Book-profit of the firm under section 40(b) of the Income-tax Act, 1961. Allowable working partner salary for the assessment year 2022-23 as per section 40(b).

Answer 23

As per Explanation 3 to section 40(b), “book profit” shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit. In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	Rs.	Rs.
Net Profit (before deduction of depreciation, salary and interest)		7,00,000
Less: Depreciation under section 32	1,50,000	
Interest @ 12% p.a. [being the maximum	60,000	2,10,000

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allowable as per section 40(b)] ($5,00,000 \times 12\%$)		
Book Profit		4,90,000

- (i) Salary actually paid to working partners = Rs. $20,000 \times 2 \times 12 =$ Rs. 4,80,000.
As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits -

On the first Rs. 3,00,000 of book profit or in case of loss	Rs. 1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y.2022-23 in this case would be:

Particulars	Rs.
On the first Rs. 3,00,000 of book profit [($1,50,000$ or 90% of Rs. 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of ($4,90,000 -$ Rs. 3,00,000)]	1,14,000
Maximum allowable partners' salary	3,84,000

Hence, allowable working partners' salary for the A.Y.2022-23 as per the provisions of section 40(b)(v) is Rs. 3,84,000.

Question 24: illustration

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

	Rs.
(i) Andhra Pradesh State Financial Corporation (P.Y. 2020-21 & 2021-22)	15,00,000
(ii) Indian Bank (P.Y. 2021-22)	30,00,000
	45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2021-22, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2022, Hari paid 5 installments to APSFC and 3 installments to Indian Bank. Hari claimed the entire interest of Rs. 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable.

Answer 24

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, inter alia, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year

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in which the converted loan is actually paid. In the given case of Hari, the unpaid interest of Rs. 15,00,000 due to APSFC and of Rs. 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of Rs. 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2022-23 shall be calculated as follows:

	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable (₹)
APSFC	15 lakh	60	25,000	5	1,25,000
Indian Bank	30 lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

Clarification on non-applicability of section 43B on employee's Contribution to welfare funds [Explanation 5 to section 43B]

As per section 2(24)(x), any sum received by an assessee, being an employer from his employee as contribution to any provident fund or superannuation fund or any fund set up under Employee's State Insurance Act, 1948 or any other fund for the welfare of employees would be considered as the income of an employer.

The deduction in respect of above sum will be allowed to the assessee under section 36(1)(va) only if such sum is credited by the assessee to the employee's account in the relevant fund on or before the due date, being the date specified under the relevant Act, Rule, order or notification issued thereunder.

As per section 43B, any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees, would be allowable during any P.Y. if the same has been paid on or before the 'due date' applicable in his case for furnishing the return of income under section 139(1) in respect of that P.Y.

Explanation 5 clarifies that the provisions of section 43B regarding allowability of certain expenditure in a previous year only on actual payment basis (i.e., payment on or before the due date of filing of return of income for relevant assessment year), does not apply and would be deemed never to be applied to employee's contribution received by employer towards any welfare fund. In effect, clause (b) of section 43B covers only employer's contribution to provident fund, superannuation fund, gratuity fund or any other fund for welfare of employees, for remittance of which extended time limit upto due date of filing return u/s 139(1) is available; however, it does not include within its scope, employees' contribution to such funds received by the employer, which has to be credited to the employee's account in the relevant fund on or before the due date specified under the relevant Act, Rule etc. Amount credited after the said due date but on or before the due date under section 139(1) would not be eligible for deduction.

Question 25: illustration

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Particulars	Rs.
Financial year 2018-19	1,15,000
Financial year 2019-20	1,80,000

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Financial year 2020-21

2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2022-23 under section 44AA of Income-tax Act, 1961?

Answer 25

Section 44AA (1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961. As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

- (i) if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded Rs. 1,50,000; or
- (ii) if it is a new profession which is setup in the relevant previous year, it is likely to exceed Rs. 1,50,000 in that previous year.
- (iii) In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded
- (iv) Rs. 1,50,000 in financial year 2018-19, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.
- (v) Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

Question 26: illustration

Mr. Praveen engaged in retail trade, reports a turnover of Rs. 1,98,50,000 for the financial year 2021-22. His income from the said business as per books of account is Rs. 13,20,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2021-22 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- (i) **Is Mr. Praveen also eligible to opt for presumptive determination of his income chargeable to tax for the assessment year 2022-23?**
- (ii) **If so, determine his income from retail trade as per the applicable presumptive provision assuming that whole of the turnover represents cash receipts.**
- (iii) **In case Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?**
- (iv) **What is the due date for filing his return of income under both the options?**

Answer 26

- (i) Yes. Since his total turnover for the F.Y. 2021-22 is below Rs. 200 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be Rs. 15,88,000, being 8% of Rs. 1,98,50,000.
- (iii) Mr. Praveen had declared profit for the previous year 2020-21 in accordance with the presumptive provisions and if he does not opt for presumptive provisions for any of the five consecutive assessment years i.e., A.Y. 2022-23 to A.Y. 2026-27, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he does

Paper 3 - Taxation

not opt for presumptive taxation in say P.Y. 2021-22 relevant to A.Y. 2022-23, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2023-24 to A.Y. 2027-28. Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

- (iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2022. In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2022

Question 27: illustration

Mr. X commenced the business of operating goods vehicles on 1.4.2021. He purchased the following vehicles during the P.Y. 2021-22. Compute his income under section 44AE for A.Y. 2022-23.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2021
(2)	6,500	1	15.03.2022
(3)	10,000	3	16.07.2021
(4)	11,000	1	02.01.2022
(5)	15,000	2	29.08.2021
(6)	15,000	1	23.02.2022

Would your Answer change if the goods vehicles purchased in April, 2021 were put to use only in July, 2021?

Answer 27

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2021-22, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs. 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs. 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1) Number of Vehicles	(2) Date of purchase	(3) No. of months for which vehicle is owned	(4) No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2021	8	16
1	23.02.2022	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2021	12	24
1	15.3.2022	1	1
3	16.7.2021	9	27
1	02.1.2022	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y. 2022-23 would be -Rs. 6,82,500, i.e., 55 × Rs. 7,500, being for other than heavy goods vehicle + 18 x Rs.

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1,000 x 15 ton being for heavy goods vehicle.

The Answer would remain the same even if the two vehicles purchased in April, 2021 were put to use only in July, 2021, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Question 28: illustration

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2022:

S. No.	Particulars	Rs.
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2022-23.

Answer 28

Computation of business income and agricultural income of Ms. Vivitha for the A.Y. 2022-23

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	Rs.	Rs.
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2)	80,000		Nil	80,000

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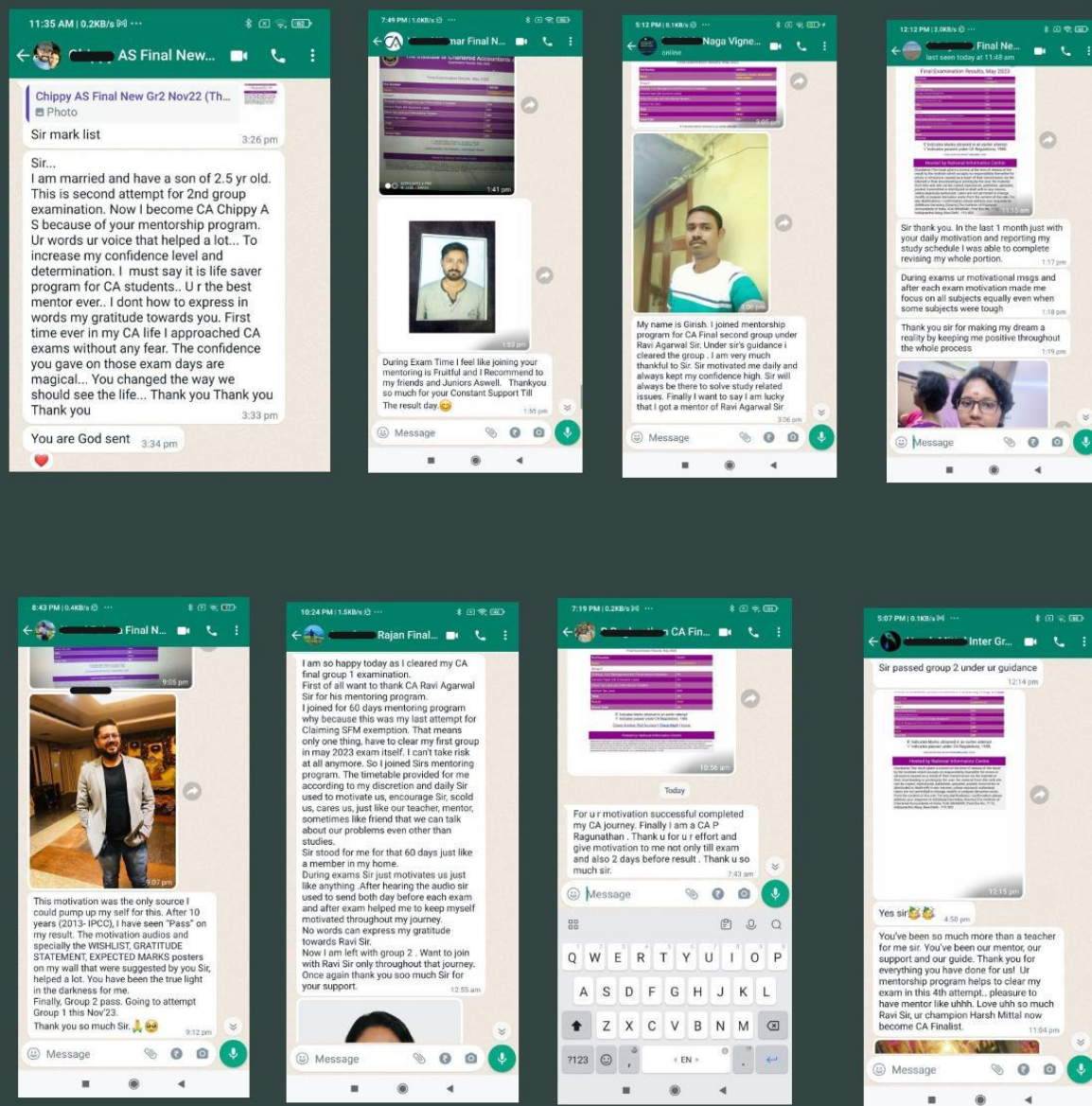
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	below)				
	Total			5,40,000	5,90,000

1. Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this Question, these operations are done in Colombo, Sri Lanka. Hence, there is no Question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
2. Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

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Chapter 3.4

CAPITAL GAINS

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q7, Q10, Q11, Q12	Q8, Q9					Q6		Q5	Q14
RTP					Q4, Q13, Q15, Q16			Q3	Q2			Q1
Q & A												
MTP			Q18	Q9	Q10, Q17		Q16	Q11, Q12, Q14, Q15	Q19	Q7, Q20	Q6, Q8	Q5, Q21
PYP		Q2			Q24		Q3, Q27	Q25	Q1			
RTP			Q22		Q13				Q4	Q26		Q23

Section – A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Mr. Kashyap, CEO of SHY Ltd., purchased a BMW of ₹ 1.15 crores on 23rd September, 2019 for his personal use. On 28.2.2023, he sold this car for ₹ 1 crore and incurred an expenditure of ₹ 2.74 lakhs for transferring the ownership of car. Compute the taxable capital gain/loss, if any to Mr. Kashyap for the A.Y. 2023-24.

CII ----- 2019-20:289; 2022-23: 331

- (a) Short term capital loss of ₹ 0.1774 crores
- (b) Long term capital loss of ₹ 0.3445 crores
- (c) Nil
- (d) Long term capital loss of ₹ 0.317 crores (RTP Nov '23)

Ans: (c)

2. Ashiyana Developers has completed one of its housing projects in Gurugram in January, 2021 which comprises of 10 residential units. It has transferred 9 residential units in February, 2021 and remaining one residential unit in May, 2021 to Mr. Suraj. All the units were transferred by way of first time allotment. The consideration received from Suraj for the residential unit is ₹ 50 lakhs while the stamp duty value of the unit in May, 2021 is ₹ 57 lakhs. Due to some

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emergency in the family, Mr. Suraj was in urgent need of funds and he sold such residential unit to Mr. Prakash in December, 2021 for ₹ 53 lakhs. The stamp duty value of the unit was ₹ 61 lakhs in December, 2021. Determine the capital gain/income which is chargeable to tax in the hands of Mr. Suraj and Mr. Prakash from the above transactions for A.Y. 2022-23.

- In the hands of Mr. Suraj – STCG of ₹ 11 lakhs; In the hands of Mr. Prakash – ₹ 8 lakhs as income under the head “Other sources”
- In the hands of Mr. Suraj – ₹ 7 lakhs as income under the head “Other sources”, STCG of ₹ 4 lakhs; In the hands of Mr. Prakash – ₹ 8 lakhs as income under the head “Other sources”
- In the hands of Mr. Suraj – STCG of ₹ 11 lakhs; In the hands of Mr. Prakash – Nil
- In the hands of Mr. Suraj – ₹ 7 lakhs as income under the head "Other sources", STCG of ₹ 11 lakhs; In the hands of Mr. Prakash – ₹ 8 lakhs as income under the head “Other sources” **(RTP May '22)**

Ans: (a)

3. A building was acquired on 1.4.1995 for ₹ 20,00,000 and sold for ₹ 80,00,000 on 01.06.2020. The stamp duty value on the date of transfer was ₹ 85,00,000. The fair market value of the building on 1.4.2001 was ₹ 25,00,000. Its stamp duty value on the same date was ₹ 22,00,000. Determine the capital gains on sale of such building for the A.Y. 2021-22? Cost Inflation Index for F.Y. 2001-02: 100; F.Y. 2020-21: 301

- ₹ 13,78,000
- ₹ 18,78,000
- ₹ 9,75,000
- ₹ 4,75,000 **(RTP Nov '21)**

Ans: (a)

4. Mr. A, aged 45 years sold an agricultural land for ₹ 52 lakhs on 04.10.2019 acquired at a cost of ₹ 49.25 lakhs on 13.09.2018 situated at 7 kms from the jurisdiction of municipality having population of 4,00,000 and also sold another agricultural land for ₹ 53 lakhs on 12.12.2019 acquired at a cost of ₹ 46 lakhs on 15.02.2018 situated at 1.5 kms from the jurisdiction of municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr. A for the assessment year 2020-21? Cost inflation index for F.Y. 2017-18: 272; 2018-19: 280; 2019-20:289.

- Short-term capital gain of ₹ 9.75 lakhs
- Short-term capital gain of ₹ 7 lakhs
- Long-term capital gain of ₹ 4,12,500
- Long-term capital gain of ₹ 5,29,196 **(RTP Nov '20)**

Ans: (b)

5. Mr. A (aged 45 years) sold an agricultural land for ₹ 52 lakhs on 04.10.2022 acquired at a cost of ₹ 49.25 lakhs on 13.09.2021 situated at 7 kms from the jurisdiction of municipality having population of 4,00,000 and also sold another agricultural land for ₹ 53 lakhs on 12.12.2022 acquired at a cost of ₹ 46 lakhs on 15.02.2021 situated at 1.5 kms from the jurisdiction of

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municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr. A for the assessment year 2023-24? Cost inflation index for F.Y.2020-21: 301; 2021-22: 317; 2022-23: 331.

- Short-term capital gain of ₹ 9.75 lakhs
- Short-term capital gain of ₹ 7 lakhs
- Long-term capital gain of ₹ 2,41,528
- Long-term capital gain of ₹ 2,99,020 (MTP 2 Marks April '23)

Ans: (b)

6. In P.Y. 2021-2022, Mr. A has transferred the following assets:

Asset transferred	Full Value of Consideration (₹)	Indexed Cost of Acquisition (₹)	Transfer Date
Residential house property	8 crores	6 crores	25.11.2021
Jewellery	3 crores	2 crores	05.01.2022

Mr. A bought a new residential house property on 01.04.2020 for ₹ 1 crore and on 28.02.2022 deposited ₹ 3 crores in a capital gains deposit account scheme. On 30.07.2022, Mr. A has withdrawn ₹ 3 crores from capital gains deposit account and acquired a residential house property worth ₹ 2.5 crore. What would be the capital gains in the hands of Mr. A for A.Y. 2022-23, if the expenses in connection with transfer of jewellery were ₹ 2,00,000?

- ₹ 80,50,000
- ₹ 81,55,705
- ₹ 98,00,000
- ₹ 48,00,000 (MTP 2 Marks March 22)

Ans : (b)

7. Mr. Vicar sold his old residential house in May, 2017 for ₹25,00,000. Long-term capital gain arising on transfer of old house amounted to ₹8,70,000. In December, 2017 he purchased another residential house worth ₹4,50,000. The new house was however, sold in May, 2018 for ₹14,00,000 (stamp duty value of the new house was ₹13,00,000). What will be amount of taxable capital gains in the hands of Mr. Vikram for the A.Y. 2018-19 and 2019-20?

- Long term capital gain of ₹4,20,000 in A.Y. 2018-19 and short-term capital gain of ₹14,00,000 in A.Y. 2019-20
- Long term capital gain of ₹4,20,000 in A.Y. 2018-19 and long term capital gain of ₹4,50,000 and short-term capital gain of ₹14,00,000 in A.Y. 2019-20
- Long term capital gain of ₹4,20,000 in A.Y. 2018-19 and long term capital gain of ₹4,50,000 and short-term capital gain of ₹9,50,000 in A.Y. 2019-20
- Long term capital gain of ₹4,20,000 in A.Y. 2018-19 and long term capital gain of ₹4,50,000 and short-term capital gain of ₹8,50,000 in A.Y. 2019-20 (MTP 2 Marks, April'19)

Ans: (a)

8. Suman is a Chartered Accountant practicing in Mumbai since September, 1994. She transfers her practice to another Chartered Accountant Smita on 19.06.2018 and charges ₹14,50,000 towards goodwill. Determine the tax

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implications that may arise in the hands of Neha on account of transfer of her practice to Smita.

- ₹14,50,000 shall be charged to tax as capital gains
- ₹14,50,000 shall be charged to tax as income from other sources
- ₹14,50,000 shall be charged to tax as income from profession
- No tax implications shall arise **(MTP 1 Mark, Oct'19)**

Ans: (d)

9. Neha sold her residential house for ₹85 lakhs on 11.08.2018. Value adopted by the Stamp Valuation Authority on the date of registration of the Conveyance Deed i.e., 17.08.2018 was ₹150 lakhs. Neha disputed the valuation done by the said authority before the Assessing Officer and filed an application before him to refer her case to the Valuation Officer. The Valuation Officer determined the value of the house on date of registration of Conveyance Deed at ₹160 lakhs. In light of these facts, compute the full value of consideration to be taken in case of Neha for the purpose of calculation of capital gains in her hands.

- ₹85 lakh
- ₹150 lakh
- ₹160 lakh
- ₹89.25 lakh **(MTP 1 Mark, Oct'19)**

Ans: (b)

10. XYZ a partnership firm was dissolved on 30-6-2018. A machine acquired on 1-5-2016 for ₹2,50,000 was distributed amongst the partners on dissolution for ₹2,25,000. The value of machinery as per books of account and Fair Market Value on 30-6-2018 was ₹2,00,000 and ₹3,50,000, respectively. What will be the full value of consideration of this machine?

- ₹2,25,000
- ₹3,50,000
- ₹2,50,000
- ₹2,00,000 **(MTP 1 Mark, April'19)**

Ans: (b)

11. Ms. Jaya acquires 5,000 equity shares on 01.01.2016 at ₹500. The Fair Market Value of the said share on 31.01.2018 is ₹250 and on 31.03.2018 is ₹600. She sells the said shares on 30.04.2018 at ₹700. Calculate the amount of long term capital gain in the hands of Ms. Jaya assuming that Securities Transaction Tax has been paid by her on acquisition and transfer of the said equity share.

CII – F.Y. 2015-16: 254; F.Y. 2018-19: 280

- ₹10 lakhs, out of which ₹9 lakhs is taxable@10%
- ₹22.50 lakh, out of which ₹21.5 lakh is taxable@10%
- ₹7.45 lakh, out of which ₹6.45 lakh is taxable @10%
- ₹5 lakhs, out of which ₹4 lakhs is taxable@10%**(MTP 2 Marks, March'19)**

Ans: (a)

12. The following information is available with respect to Tina:

- Capital Asset acquired on 01.04.2001 for ₹85,200
- The capital asset was converted into stock-in-trade on 30.09.2017. On the said date, the fair market value of the said asset was ₹6,00,000.

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- **The stock-in-trade so converted was sold on 15.07.2018 for ₹8,50,000. Determine the tax implications in the hands of Tina for A.Y. 2019-20.**

Cost Inflation Index Financial year 2001-02: 100, 2017-18: 272, 2018-19: 280]

- Only business profits of ₹2,50,000 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
- Only long term capital gain of ₹6,11,440 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
- Business profits of ₹2,50,000 and long term capital gain of ₹3,61,440 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
- Business profits of ₹2,50,000 and long term capital gain of ₹3,68,256 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20. **(MTP 2 Marks, March '19)**

Ans: (d)

- 13. Mr. Rana is a resident of India residing in Meerut. During F.Y. 2010-11 he purchased an agricultural land situated in Bahadurpur for ₹ 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During F.Y. 2018 -19, Mr. Rana sold this land to Mr. Jeet for ₹ 25 lacs on 29.1.2019. Mr. Rana invested ₹ 5 lakhs in bonds of NHA1 on 31.7.2019. Cost inflation index for F.Y. 2010-11 and F.Y. 2018-19 is 167 and 280 respectively. Compute the amount of capital gain taxable in the hands of Mr. Rana for A.Y. 2019-20:**

- ₹ 3,23,353
- ₹ 8,23,353
- ₹ 10,00,000
- None of the above **(RTP May '20)**

Ans: (d)

- 14. Mr. Vikas transferred 600 unlisted shares of XYZ (P) Ltd. to ABC (P) Ltd. on 15.12.2020 for ₹ 3,50,000 when the market price was ₹ 5,15,000. The indexed cost of acquisition of shares for Mr. Vikas was computed at ₹ 4,25,000. Determine the income chargeable to tax in the hands of Mr. Vikas and ABC (P) Ltd. in respect of the above transaction.**

- ₹ 90,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.
- ₹ 75,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.
- ₹ 90,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and ₹ 1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.
- ₹ 75,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and ₹ 1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd. **(RTP May '21 , MTP 2 Marks Oct '23)**

Ans: (c)

- 15. Mr. Rana is a resident of India residing in Meerut. During F.Y. 2010-11 he purchased an agricultural land situated in Bahadurpur for ₹ 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During F.Y. 2018 -19, Mr. Rana sold this land to**

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Mr. Jeet for ₹ 25 lacs on 29.1.2019. Mr. Rana invested ₹ 5 lakhs in bonds of NHAI on 31.7.2019. Cost inflation index for F.Y. 2010-11 and F.Y. 2018-19 is 167 and 280 respectively. Compute the amount of capital gain taxable in the hands of Mr. Rana for A.Y. 2019-20:

- (a) ₹ 3,23,353
 (b) ₹ 8,23,353
 (c) ₹ 10,00,000
 (d) None of the above (RTP May '20)

Ans: The Answer is (d)

16. Mr. Arjun holding 1000 shares of X Ltd acquired on 01.07.2018 for ₹ 600 per share, sold 500 shares to Mr. Shaurya, on 01.05.2019 for ₹ 550 per share. X Ltd. declared dividend @ ₹ 65 per share on 20.07.2019, being the record date for declaration of dividend. Mr. Shaurya sold 300 equity shares at ₹ 475 per share on 28.09.2019 and the balance 200 equity shares at ₹ 450 per share on 28.10.2019. Apart from above mentioned information, Mr. Shaurya was having only long-term capital gains from sale of unlisted shares of ₹ 50,000. Assuming that Mr. Shaurya has no other income, his total income for A.Y. 2020-21 is -

- (a) ₹ 7,500
 (b) ₹ 27,000
 (c) ₹ 50,000
 (d) ₹ 30,000 (RTP Nov '20)

Ans: (b)

Question & Answers**Question 1**

Mr. Sarthak is a member of HUF. It consists of himself, his wife Juhi and his major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration. On 01-10-2021, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2021-22 is ₹ 1,00,000. Determine the tax implications. (PYP 4 Marks May'22)

Answer 1

	₹
Since Mr. Sarthak, who is a member of the HUF, transfers the house property acquired by him out of his personal income to the HUF without any consideration, the income from such property would continue to be included in his total income upto the date of partition. Accordingly, income from such property for six months upto the date of partition i.e., 30.9.2021 (6/12 x ₹ 70,000 [Net Annual Value of ₹ 1,00,000 less deduction under section 24(a) @30%]) would be included in the total income of Mr. Sarthak.	35,000
Since the HUF was partitioned on 1.10.2021, the income derived from such converted house property as is received by Mr. Sarthak's spouse, Juhi, on partition will be deemed to arise to Mr. Sarthak	

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from house property transferred indirectly by him to her and consequently, such income would also be included in the total income of Mr. Sarthak. Accordingly, Mr. Sarthak's share (25%) and Juhi's share (25%) would be included in the total income of Mr. Sarthak.	
Sarthak's Share [25% of ₹ 35,000 (₹ 70,000 x 6/12)]	8,750
Juhi's Share [25% of ₹ 35,000] included in the total income of Sarthak	8,750
Income from house property includible in the income of Mr. Sarthak	52,500
25% share of Sarthak's minor daughter, Aditi, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosoever's total income, before including Aditi's income, is higher. Such parent shall be entitled to an exemption of ₹ 1,500 under section 10(32).	
25% share of Sarthak's major son, Arjun, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in Arjun's total income.	
Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.	

Question 2

Mr. Subramani sold a house plot to Mrs. Vimala for ₹ 45 lakhs on 12-5-2017. The valuation determined by the stamp valuation authority was ₹ 53 lakhs. Discuss the tax consequences of above, in the hands of each one of them, visa, Mr. Subramani & Mrs. Vimala. Mrs. Vimala has sold this plot to Ms. Padmaja on 21-3-2018 for ₹ 55 lakhs. The valuation as per stamp valuation authority remains the same at ₹ 53 lakhs. Compute the capital gains arising on sale of the house plot by Mrs. Vimala.

Note: None of the party's visa Mr. Subramani, Mrs. Vimala & Ms. Padmaja are related to each other; the transactions are between outsiders.(PYP 6 Marks, Nov'18)

Answer 2

(I)	Tax consequences in the hands of Mr. Subramani
	<p>As per section 50C, the stamp duty value of immovable property, being land or building or both, would be deemed to be the full value of consideration arising on transfer of such property, if the same is higher than actual consideration.</p> <p>(As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)</p> <p>Accordingly, in this case, capital gains would be computed in the hands of Mr. Subramani, for A.Y.2018-19, taking the stamp duty value of ₹ 53 lakh of house plot as the full value of consideration arising on transfer of such house plot, since the same is higher than the actual consideration of ₹ 45 lakh.</p> <p>Note – If it is assumed that Mr. Subramani is a property dealer, the income would be taxable as his business income under section 43CA difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds ₹ 50,000.</p> <p>Therefore, in this case, ₹ 8 lakh (₹ 53 lakh – ₹ 45 lakh) would be taxable in the hands of Mrs. Vimala under the head “Income from Other Sources” in A.Y.2018-19.</p> <p>At the time of subsequent sale of property by Mrs. Vimala to Mrs. Padmaja</p>

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(on 21.3.2018), short-term capital gains would arise in the hands of Mrs. Vimala in A.Y. 2018-19, since the property is held by her for less than 24 months.	
Particulars	
Full value of consideration (Since actual consideration of ₹ 55 lakh is higher than stamp duty value of ₹ 53 lakh)	55 lakh
Less: Cost of acquisition (Value taken into account for the purpose of section 56(2)(x) 1	53 lakh
Short-term capital gains	2 lakh

Question 3

Mr. Patel is a proprietor of Star Stores since 20-05-2018. He has transferred his shop by way of slump sale for a total consideration of ₹ 40 Lakh. The professional fees & brokerage paid for this sale are ₹ 80,000. His Balance Sheet as on 31-03-2021 is as under

Liabilities	₹	Assets	₹
Own Capital	10,50,000	Building	5,00,000
Bank Loan	5,00,000	Furniture	5,00,000
Trade Creditors	2,50,000	Debtors	2,00,000
Unsecured Loan	2,00,000	Other Assets	8,00,000
	20,00,000		20,00,000

Other Information:

- No individual value of any asset is considered in the transfer deed.
- Other assets include trademarks valuing ₹ 2,00,000 as on 01-04-2020 on which no depreciation has been provided.
- Furniture of ₹ 1,50,000 purchased on 05-11-2020 on which no depreciation has been provided.
- Unsecured loan includes ₹ 50,000 as advance received from his wife, which she has agreed to waive off. Compute the capital gain for A.Y. 2021-22. (PYP 4 Marks, July'21)

Answer 3

Computation of capital gains on slump sale of shop

Particulars	₹
*Sale value	40,00,000
Less: Expenses on sale [professional fees & brokerage]	80,000
Net sale consideration	39,20,000
Less: Net worth (See Working Note below)	10,42,500
Short-term capital gain [Since shop is held for not more than 36 months immediately preceding the date of transfer]	28,77,500
Working Note: Computation of net worth of shop	

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Building		5,00,000
Furniture	5,00,000	
Less: Depreciation on ₹1,50,000 @ 5%, being 50% of 10% since furniture is put to use for less than 180 days during the previous year	7,500	4,92,500
Debtors		2,00,000
Other assets	8,00,000	
Less: Depreciation on ₹ 2,00,000, being intangible asset @ 25%	50,000	7,50,000
Total assets		19,42,500
Less: Bank loan	5,00,000	
Trade creditors	2,50,000	
Unsecured loan ₹ 2,00,000 less ₹ 50,000, being the amount waived off by his wife	1,50,000	9,00,000
Net worth		10,42,500

***(As per amendment The fair market value of capital asset would be higher of: FMV1- being the fair market value of capital assets transferred by way of slump sale & FMV2- being the fair market value of the consideration (monetary or non-monetary) received or accruing as a result of transfer by way of slump sale)**

Question 4

Mr. Aditya is a proprietor of Star Stores having 2 units. On 1.4.2021, he has transferred Unit 2, which he started in 2004-05, by way of slump sale for a total consideration of ₹ 18 lakhs. The professional fees & brokerage paid for this transfer are ₹ 78,000. His Balance Sheet as on 31-03-2021 is as under:

Liabilities	₹	Assets	Unit 1 ₹	Unit 2 ₹	Total
Own Capital	20,50,000	Land	12,75,000	7,50,000	20,25,000
Revaluation reserve	2,50,000	Furniture	2,00,000	5,00,000	7,00,000
Bank Loan (70% for Unit 1)	8,50,000	Debtors	2,00,000	3,50,000	5,50,000
Trade Creditors (20% for Unit 2)	4,50,000	Patents	-	7,25,000	7,25,000
Unsecured Loan (30% for Unit 2)	4,00,000				
	40,00,000		16,75,000	23,25,000	40,00,000

Other Information:

- Land of Unit 2 was purchased at ₹ 5,00,000 in the year 2004 and revalued at ₹ 7,50,000 as on 31.3.2021.
- No individual value of any asset is considered in the transfer deed.
- Patents were acquired on 01-12-2019 on which no depreciation has been provided.
- Furniture of Unit 2 of ₹ 5,00,000 were purchased on 01-12-2020 on which no depreciation has been provided.
- Fair market value of capital asset transferred by way of slump sale of Unit 2 is ₹ 18,10,000.

Compute the capital gain for A.Y. 2022-23.(RTP May '22)

Answer 4

As per section 50B, any profits and gains arising from the slump sale effected in the

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previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Computation of capital gain on slump sale of Unit 2

Particulars	₹
Full value of consideration for slump sale of Unit 2 [Fair market value of capital asset transferred by way of slump sale (i.e., ₹ 18,10,000) or fair market value of the consideration received (value of the monetary consideration received i.e., ₹ 18,00,000) whichever is higher]	18,10,000
Less: Expenses on sale [professional fees & brokerage]	78,000
Net full value of consideration	17,32,000
Less: Cost of acquisition, being the net worth of Unit 2 (Note 1)	13,35,781
Long term capital gains arising on slump sale (The capital gains is long-term as the Unit 2 is held for more than 36 months)	3,96,219

Notes

1. Computation of net worth of Unit 2

Particulars	₹
(1) Book value of non-depreciable assets	
(i) Land (Revaluation not to be considered)	5,00,000
(ii) Debtors	3,50,000
(2) Written down value of depreciable assets 43(6)	under section
(i) Furniture (See Note 2)	4,75,000
(ii) Patents (See Note 3)	4,75,781
Aggregate value of total assets	18,00,781
Less: Current liabilities of Unit 2	
Bank Loan [₹ 8,50,000 x 30%]	2,55,000
Trade Creditors [₹ 4,50,000 x 20%]	90,000
Unsecured Loan [₹ 4,00,000 x 30%]	1,20,000
Net worth of unit 2	13,35,781

2. Written down value of furniture as on 1.4.2021

Value of patents	₹
Cost as on 1.12.2020	5,00,000
Less: Depreciation @ 10% x 50% for Financial Year 2020-21	25,000
WDV as on 1.4.2021	4,75,000

3. Written down value of patents as on 1.4.2021

Value of patents	₹
Cost as on 1.12.2019	7,25,000
Less: Depreciation @ 25% x 50% for Financial Year 2019-20	90,625
WDV as on 1.4.2020	6,34,375
Less: Depreciation @ 25% for Financial Year 2020-21	1,58,594
WDV as on 1.4.2021	4,75,781

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Question 5

Mr. Kalyan has a residential house property which was acquired on 12-08-2005 for ₹ 2,00,000. The property is sold for ₹ 22,00,000 in December 2022. The sub-registrar refused to register the documents for the said value, as according to him, stamp duty value based on State Government guidelines was ₹ 28,00,000. Mr. Kalyan preferred an appeal to the revenue divisional officer who fixed the value of the house ₹ 25,00,000. He acquired another residential house on 31 -03-2023 for ₹ 17,00,000 for self-occupation. On 01-03-2024, he sold such new residential house for ₹ 30,00,000.

Compute his capital gain for the A.Y. 2023-24 and 2024-25. (Cost Inflation Index: 2001-02; 2005- 06 and 2022-23 are, 100; 117 and 331) (MTP 4 Marks Oct '23)

Answer 5

Computation of capital gain in the hands of Mr. Kalyan for A.Y. 2023-24

Particulars	₹
Full value of consideration	25,00,000
[As per section 50C, in case the actual sale consideration (i.e., ₹ 22 lakhs, in this case) is less than the stamp duty value (i.e., ₹ 28 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration if it exceeds 110% of the sale consideration	
However, if assessee has preferred an appeal to the Valuation Officer (i.e., revenue divisional officer, in this case) and the Valuation Officer has fixed the value of the house (i.e., ₹ 25 lakh, in this case) less than stamp duty value (i.e., ₹ 28 lakh, in this case), such value determined by the Valuation Officer shall be deemed as the full value of consideration.]	
Less: Indexed cost of acquisition [₹ 2,00,000 x 331/117]	5,65,812
Long-term capital gain [Since the residential house is held for more than 24 months]	19,34,188
Less: Exemption under section 54	
Purchase of new residential house property on 31.3.2023 (i.e., within two years from the date of transfer of residential house)	17,00,000
Taxable long term capital gain	2,34,188

Computation of capital gains in the hands of Mr. Kalyan for A.Y. 2024-25

Particulars	₹
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Paper 3 - Taxation

Full value of consideration Less: Cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 31.3.2023, in this case) is transferred within 3 years of its	30,00,000
purchase (i.e., on 1.3.2024, in this case), and the cost of acquisition of the new house (i.e., ₹ 17 lakhs, in this case) is lower than the long-term capital gain (i.e., ₹ 19,34,188, in this case), the cost of acquisition of such new residential house shall be taken as Nil, while computing capital gains on sale of the new residential house]	Nil
Short term capital gain [Since the residential house is held for a period less than 24 months]	30,00,000

Question 6

Mr. Ramesh entered into an agreement with Mr. Vikas to sell a plot on 5.4.2022 for ₹ 45 lakhs. He received an advance of ₹ 15 lakhs from him on the date of agreement by account payee cheque. Transfer took place on 10-9-2022. The valuation determined by the stamp valuation authority on the date of agreement and transfer was ₹ 49 lakhs and ₹ 53 lakhs, respectively.

Mr. Vikas has sold this plot to Ms. Babli on 21-3-2023 for ₹ 55 lakhs.

The valuation as per stamp valuation authority was ₹ 54 lakhs on 21-3-2023.

Discuss the tax consequences of above, in the hands of Mr. Ramesh and Mr. Vikas. Also, compute the capital gain in the hands of Mr. Vikas.

Note: None of the parties viz Mr. Ramesh, Mr. Vikas & Ms. Babli are related to each other; the transactions are between outsiders. (MTP 7 Marks April '23)

Answer 6

I.	Tax consequences in the hands of Mr. Ramesh
	<p>As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since ₹ 15 lakhs is received through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration.</p> <p>Accordingly, in this case, capital gains would be computed in the hands of Mr. Ramesh, for A.Y.2023-24, taking the actual consideration of ₹ 45 lakh of plot as the full value of consideration arising on transfer of such plot, since the stamp duty value on the date of agreement does not exceed 110% of the actual consideration.</p>

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Paper 3 - Taxation

	Note – If it is assumed that Mr. Ramesh is a property dealer, the income would be taxable as his business income under section 43CA	
II.	Tax consequences in the hands of Mr. Vikas	
	<p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 10% of actual sales consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since ₹ 15 lakhs is paid through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered.</p> <p>Therefore, nothing would be taxable in the hands of Mr. Vikas under the head “Income from Other Sources” in A.Y.2023-24 since the difference between stamp duty value on the date of agreement and actual consideration does not exceed ₹ 4,50,000, being the higher of ₹ 50,000 and 10% of consideration.</p> <p>At the time of subsequent sale of property by Mr. Vikas to Ms. Babli (on 21.3.2023), short-term capital gains would arise in the hands of Mr. Vikas in A.Y.2023-24, since the property is held by him for less than 24 months.</p>	
	Particulars	₹
	Full value of consideration (Since actual consideration of ₹ 55 lakh is higher than stamp duty value of ₹ 54 lakh)	55 lakh
	Less: Cost of acquisition	<u>45 lakh</u>
	Short-term capital gains	<u>10 lakh</u>

Question 7

- (i) **Examine the taxability of capital gains in the following scenarios for the Assessment Year 2022-23, determine the taxable amount and rate of tax applicable:**

On 20th December, 2021 5,000 shares of AB Ltd., a listed company are sold by Mr. Kumar @ 500 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5th June, 2017 @ ₹ 425 per share by paying STT at the time of purchase. On 31st January, 2018, the shares of AB Ltd. were traded on a recognized stock exchange at the Fair Market Value of ₹ 450 per share. (MTP 2Marks Sep'22)

- (ii) **Mr. Satish is the owner of a residential house which was purchased on 1st July, 2015 for ₹ 10,50,000. He sold the said house on 14th October, 2021 for ₹ 25,00,000. Valuation as per stamp valuation authorities was ₹ 45,00,000. He invested ₹ 15,00,000 in RECL Bonds on 20th March, 2022.**

The Cost Inflation index for-

F.Y. 2015-16 254

F.Y. 2021-22 317

(MTP 2 Marks Sep'22)

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Paper 3 - Taxation

Answer 7

(i)	Long-term capital gain on transfer of 5,000 shares of AB Ltd. [taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]	
	Full value of consideration [5,000 x ₹ 500]	25,00,000
	Less: Cost of acquisition	
	Higher of	
	Cost of acquisition [5,000 x ₹ 425]	21,25,000
	Lower of fair market value per share as on 31.1.2018	
	22,50,000	
	i.e., ₹ 450 per share and sale consideration i.e., ₹ 500 per share [5,000 x ₹ 450]	22,50,000
	Long term capital gain taxable u/s 112A	2,50,000
	Long-term capital gain exceeding ₹ 1 lakh i.e., ₹ 1,50,000 would be taxable @10%	
(ii)	Sale of residential house [long-term capital asset, since held for more than 24 months]	
	Full value of consideration [stamp duty value, since it exceeds 110% of actual sale consideration]	45,00,000
	Less: Indexed cost of acquisition [₹ 10,50,000 x 317/254]	13,10,433
		31,89,567
	Less: Deduction under section 54EC	15,00,000
	Since ₹ 15,00,000 is invested in RECL bonds on 20th March 2022 i.e.,	
	before six months from the date of transfer	
	Long-term capital gain taxable u/s 112 @ 20%	16,89,567

Question 8

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty value @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2022, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2023. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2022 was ₹ 39,00,000 and on 20th February, 2023 was ₹ 41,00,000.

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Paper 3 - Taxation

Compute the capital gains in the hands of Mr. Shiva for A.Y.2023 -24. CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2022-23: 331 (MTP 7 Marks March '23 & Aug '18)

Answer 8

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2023-24

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		30,500
Net sale consideration		38,69,500
Less: Indexed cost of acquisition (Note 1)	31,74,290	
Less: Indexed cost of improvement (Note 2)	5,08,228	36,82,518
Long term capital gain		1,86,982

Notes:

(1) Computation of indexed cost of acquisition

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition,		10,70,000
Being the higher of		

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Paper 3 - Taxation

(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition for indexation		9,59,000
Indexed cost of acquisition (₹ 9,59,000 x 331/100)		31,74,290

(2) Computation of indexed cost of improvement

Particulars	Amount (₹)
Cost of construction of first floor in August, 2015	3,90,000
Indexed cost of improvement (₹ 3,90,000 x 331/254)	5,08,228

Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited [i.e. ₹ 10,70,000 - ₹ 1,11,000 (being the advance money forfeited during the P.Y.2008-09) = ₹ 9,59,000]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head "Income from other sources" in the hands of Mr. Shiva in A.Y.2016-17.

Question 9

Mr. Sarthe entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2018 for ₹ 80,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through account payee bank draft on the date of agreement.
- (ii) 60% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title of the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2018 and the registration process was completed on 14.01.2019. He paid the sale proceeds as per the sale agreement. The value determined by the Stamp Duty Authority on 16.08.2018 was ₹ 90,00,000 whereas on 14.01.2019 it was ₹ 91,50,000.

Mr. Sarthe had acquired the property on 01.04.2001 for ₹ 20,00,000. After recovering the sale proceeds from Jaikumar, he purchased another residential house property for ₹ 20,00,000 on 24.3.2019. Compute the income under the head "Capital Gains" for the Assessment Year 2019 -20. Cost Inflation Index for Financial Year(s)

2001-02- 100; 2018-19 – 280 (MTP 7 Marks, Oct'19)

Answer 9

Computation of income chargeable under the head "Capital Gains" for A.Y. 2019 -20

Particulars	₹
Capital Gains on sale of residential house	

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Paper 3 - Taxation

Actual sale consideration	₹ 80 lakhs	
Value adopted by Stamp Valuation Authority	₹ 90 lakhs	
Full value of sale consideration [Higher of the above]		90,00,000
<p>[As per section 50C, where the actual sale consideration declared by the assessee on the date is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% (110%) of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement.</p> <p>In this case, since 20% of ₹ 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]</p>		
Less: Indexed cost of acquisition of residential house		
[₹ 20 lakhs x 280/100]		56,00,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthe for more than 24 months immediately preceding the date of its transfer]		24,00,000
Less: Exemption u/s 54		20,00,000
<p>The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.</p>		
Long term capital gains chargeable to tax		4,00,000

(As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)

Question 10

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

He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in July 2019. The sale consideration was fixed at ₹ 600 lakhs and on the date of agreement, Mr. Yusuf received ₹ 20 lakhs as advance in cash. The stamp duty value on that date was ₹ 620 lakhs.

The sale deed was executed and registered on 10-2-2020 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 650 lakhs. Mr. Yusuf paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Yusuf made following investments:

- (i) **Acquired a residential house at Delhi for ₹ 80 lakhs.**
- (ii) **Acquired a residential house at London for ₹ 40 lakhs.**
- (iii) **Subscribed to NHA bond: ₹ 45 lakhs on 29-5-2020 and ₹ 15 lakhs on 12-7-2020.**

Compute the income chargeable under the head "Capital Gains" for A.Y. 2020-21. The choice of exemption must be in the manner most beneficial to the assessee. (MTP Oct 20, 7 Marks, RTP May 18)

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Paper 3 - Taxation

Cost Inflation Index:	F.Y. 2004-05	113
	F.Y. 2006-07	122
	F.Y. 2019-20	289

Answer 10

Computation of income chargeable under the head "Capital Gains" for A.Y.2020-21

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 600 lakhs		
Value adopted by Stamp Valuation Authority ₹ 650 lakhs		650.00
Gross Sale consideration		600.00
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% (110%) of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. (As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration) In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through any other prescribed electronics mode on or before the date of agreement.		
In this case, since advance of ₹20 lakh is received in cash on the date of agreement, stamp duty value on the date of registration has to be considered. Since stamp duty value on the date of registration exceeds 105% (110%) of the actual consideration, such stamp duty value on the date of registration would be taken as full value of consideration]		6.00
Less: Brokerage@1% of sale consideration (1% of ₹ ₹600 lakhs)		
Net Sale consideration		644.00
Less: Indexed cost of acquisition		594
- Cost of vacant land, ₹ Rs 80 lakhs, plus registration and other expenses i.e., ₹ Rs 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 289/113]	225.06	
- Construction cost of residential building (₹Rs 100 lakhs x 289/122)	236.89	461.95
Long-term capital gains before exemption		182.05 132.05
Less: Exemption under section 54		80.00

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Paper 3 - Taxation

<p>Since the amount of capital gain does not exceed ₹ Rs 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of two residential house property in India one year before or two years after the date of transfer of original asset, at the option of the assessee. However, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in London since the residential house property should be purchased or constructed in India</p>		
<p>Less: Exemption under section 54EC Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.08.2020) would qualify for exemption, to the maximum extent of ₹50 lakhs. Therefore, in the present case, exemption can be availed only to the extent of ₹50 lakh out of ₹ 60 lakhs, even if the both the investments are made on or before 09.08.2020 (i.e., within six months from the date of transfer).</p>		50.00
<p>Long term capital gains chargeable to tax</p>		52.05 2.05

Note: Since the residential house property was held by Mr. Yusuf for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain

Question 11

Mrs. Neha transferred 100 shares of ABC (P) Ltd. to M/s. XYZ Co. (P) Ltd. on 10.9.2020 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mrs. Neha was computed at ₹ 4,30,000. The transfer was not subjected to securities transaction tax. Determine the income chargeable to tax in the hands of Mrs. Neha and M/s. XYZ Co. (P) Ltd. because of the above said transaction. (MTP 2 Marks, Nov'21)

Answer 11

Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s XYZ (P) Ltd. from Mrs. Neha for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of ABC (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of ABC (P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,30,000) would result in a long term capital gains of ₹ 70,000 in the hands of Mrs. Neha.

Question 12

Aggarwal & Sons, HUF purchased a house property in the year 1950 for ₹50,000. On 31.10.2020, the HUF was totally partitioned and the aforesaid house

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Paper 3 - Taxation

property was given to Mr. Subhash Aggarwal, a member of the family. Fair Market value of the house as on 31.10.2020 was ₹21,00,000. FMV of the house as on 1.4.2001 was ₹3,50,000. What will be the tax implications in the hands of Mr. Subhash Aggarwal and the HUF? (MTP 3 Marks, Oct'21)

Answer 12

Tax implications in the hands of HUF

As per section 47, any distribution of capital assets on the total or partial partition of a HUF would not be regarded as transfer for the purpose of capital gains tax.

In this case, Aggarwal & Sons, HUF transferred the asset to Mr. Subhash Aggarwal, a member of HUF on total partition of the HUF. Hence, the transaction would not be regarded as transfer.

Tax implications in the hands of Mr. Subhash Aggarwal

If an immovable property is received by any person without consideration, the stamp duty value of such property would be taxed as the income of the recipient under section 56(2)(x), if it exceeds ₹50,000. However, it would not be taxable as income if the transfer is by way of a transfer, inter alia, on total or partial partition of a HUF.

In the give case, since Mr. Subhash Aggarwal received the house property on total partition of the HUF, it would not be taxable in his hand.

Question 13

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2023 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-1-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- (i) **Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2024 and 15.5.2024**
- (ii) **Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2024.**
- (iii) **Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 29-3-2024 and for ₹ 40 lakhs on 12-5-2024.**

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2024-25. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2023-24 - 348. (New SM) (Same concept different figures RTP May'20)

Answer 13

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2024-25

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Paper 3 - Taxation

Particulars	Rs.(in lakhs)	Rs.(in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration Rs. 810 lakhs		
Value adopted by Stamp Valuation Authority Rs. 890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty		
value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.		
In this case, since advance of Rs. 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration)		
Gross Sale consideration (actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		810.00
Less: Brokerage @1% of sale consideration (1% of Rs. 810 lakhs)		8.10
Net Sale consideration		801.90
Less: Indexed cost of acquisition		
- Cost of vacant land, Rs. 80 lakhs, plus registration and other expenses i.e., Rs. 8 lakhs, being 10% of cost of land [$\text{₹ } 88 \text{ lakhs} \times 348/117$]	261.74	
- Construction cost of residential building ($\text{₹ } 100 \text{ lakhs} \times 348/129$)	269.77	531.51
Long-term capital gains		270.39
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: Exemption under section 54		130.00

Paper 3 - Taxation

Where long-term capital gains exceed Rs. 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., Rs. 130 lakhs as exemption.		
Less: Exemption under section 54EC		50.00
Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2022), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of Rs. 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of Rs. 50 lakh out of Rs. 90 lakhs, even if the both the investments are made on or before 13.7.2022 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		90.39

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

Question 14

Mr. Gyaanchand purchased 1200 shares of "A" limited at ₹ ₹130 per share on 26.02.1979. "A" limited issued him 600 bonus shares on 20.02.2002. The fair market value of these shares at Mumbai Stock Exchange as on 1.04.2001 was ₹900 per share and ₹2,000 per share as on 31.01.2018. On 07.07.2020 Mr. Gyaanchand sold all 1800 shares @ ₹ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid. Compute capital gain chargeable to tax in the hands of Mr. Gyaanchand for the A.Y.2021-22. (MTP 4 Marks, Oct'21)

Answer 14

Computation of capital gain of Mr. Gyaanchand for the A.Y.2021-22

Particulars	₹Rs	₹₹
Capital Gains		
In respect of 600 shares (bonus shares)		
Full value of consideration [600 shares x ₹ ₹2,400 per share]	14,40,00	
Less: Cost of acquisition [600 shares x ₹2,000]	12,00,00	2,40,00
	0	0
Higher of (I) and (ii), below		
(i) Nil, being cost of acquisition		
(ii) ₹2,000 per share, being the lower of		

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Paper 3 - Taxation

FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration - ₹2,400 per share		
In respect of 1,200 original shares		
Full value of consideration [1,200 shares x ₹2,400]	28,80,00 0	
Less: Cost of acquisition [1,200 shares x ₹2,000]	24,00,00 0	4,80,00 0
Higher of (i) and (ii), below		
(i) ₹900, being original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹900), at the option of the assessee		
(ii) ₹2,000 per share, being the lower of		
FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration - ₹2,400 per share		
Long term capital gain		7,20,00 0

Question 15

Mr. Raj is carrying on business of manufacture and sale of art-silk cloth. He purchased machinery worth ₹ 4 lacs on 1.5.2017 and insured it with United India Assurance Ltd against fire, flood, earthquake etc., The written down value of the asset as on 01.04.2020 was ₹ 1,87,850. The insurance policy contained a reinstatement clause requiring the insurance company to pay the value of the machinery, as on the date of fire etc., in case of destruction of loss. A fire broke out in August, 2020 causing extensive damage to the machinery of the assessee rendering them totally useless. The assessee company received a sum of ₹ 4 lacs from the insurance company on 15th March, 2021. Examine the issues arising on account on the transactions and their tax treatment. (Cost inflation index for financial year 2008-09 and 2020-21 are 137 and 301 respectively) (MTP 4 Marks, Nov'21)

Answer 15

As per section 45(1A), where any person receives any money or other assets under an insurance from an insurer on account of damage to or destruction of capital asset as a result of, inter alia, accidental fire then, any profits and gains arising from the receipt of such money or other assets, shall be chargeable to income tax under the head "Capital Gains" and shall be deemed to be the income of such person of the previous year in which such money or asset was received.

For the purpose of section 48, the money received or the market value of the asset shall be deemed to be the full value of the consideration accruing as a result of the transfer of such capital asset. Since the asset was destroyed and the money from the insurance company was received in the previous year, there will be a liability to compute capital gains in respect of the insurance moneys received by the assessee.

Under section 45(1A) any profits and gains arising from receipt of insurance moneys is chargeable under the head "Capital gains". For the purpose of section 48, the moneys received shall be deemed to be the full value of the consideration accruing or arising. Under section 50 the capital gains in respect of depreciable assets had to be computed in the following manner (assuming it was the only asset in the block).

The computation of capital gain and tax implication is given below:

Full value of the consideration ₹ 4,00,000 Less: Written down value as on April 1st, 2020 ₹ 1,87,850 Short term capital gains ₹ 2,12,150

Question 16

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Paper 3 - Taxation

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2021-22 from the following details provided by Mr. Naveen with respect to sale of certain securities during F.Y. 2020-21, assuming that the other incomes of Mr. Naveen exceed the maximum amount not chargeable to tax. (Ignore surcharge and cess):

- (i) Sold 10,000 shares of Y Ltd. on 05-04-2020 @ ₹ 650 per share
Y Ltd. is a listed company. These shares were acquired by Mr. Naveen on 05-04-2016 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange.
On 31-01-2018, the shares of Y Ltd. were traded on a recognized stock exchange as under: Highest price - ₹ 300 per share
Average price - ₹ 290 per share Lowest price - ₹ 280 per share
- (ii) Sold 1,000 units of AB Mutual Fund on 20-05-2020 @ ₹ 50 per unit
AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10-03-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of AB Mutual Fund was ₹ 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.
- (iii) Sold 100 shares of C Ltd. on 27-09-2020 @ ₹ 200 per share
C Ltd. is an unlisted company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was ₹ 50 per share.
Cost Inflation Index for various financial years are as under (MTP 7 Marks, April'21, PYP 6 Marks Nov 19)

2001-02	100
2016-17	264
2017-18	272
2020-21	301

Answer 16

Computation of amount chargeable to tax under the head "Capital Gains" in the hands of Mr. Naveen

	Particulars	₹
(i)	Sale of 10,000 shares of Y Ltd. on 5.4.2020 @ 650 per share Sales consideration (10,000 x ₹ 650)	65,00,000
	Less: Cost of acquisition Higher of:	₹ 30,00,000
	- Actual cost (10,000 x ₹ 100)	10,00,000
	- Lower of: • ₹ 30,00,000 (₹ 300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.1.2018); and • ₹ 65,00,000, being full value of consideration on transfer Long-term capital gain under section 112A [Since shares held for more than 12 months and STT is paid both at the time of purchase and sale. Benefit of indexation is, however, not available on LTCG taxable u/s 112A].	30,00,000 35,00,000
(ii)	Sale of 1,000 units of AB Mutual Fund on 20.5.2020 @ ₹ 50 per unit Sale consideration (1,000 x ₹ 50)	50,000
	Less: Cost of acquisition - Higher of -	50,000

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Paper 3 - Taxation

	Actual cost (1,000 x ₹ 10) 10,000 Lower of: 50,000 • ₹ 55,000 (₹ 55 x 1,000), FMV, being Net Asset Value as on 31.1.2018; and • ₹ 50,000, being full value of consideration on transfer Long-term capital gain under section 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]	Nil
(iii)	Sale of 100 shares of C Ltd. on 27.9.2020 @ 200 per share Sale consideration (100 x ₹ 200)	20,000
	Less: Indexed Cost of acquisition [100 x ₹ 50 (being FMV on 1.4.2001) x 301/100]	<u>15,050</u>
	Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]	<u>4,950</u>

Computation of tax on such capital gains for A.Y. 2021-22

Particulars	₹
Tax under section 112A @ 10% on long-term capital gains of ₹ 34,00,000 [LTCG of ₹ 35,00,000 (-) ₹ 1,00,000] arising on sale of shares of Y Ltd.	3,40,000
Tax under section 112 @ 20% on long-term capital gains of ₹ 4,950 arising on sale of unlisted shares of C Ltd.	990
Total tax payable	3,40,990

Question 17

Mr. Ramesh sold a house plot to Mr. Vikas for ₹ 45 lakhs on 10-9-2019. The valuation determined by the stamp valuation authority was ₹ 53 lakhs. Mr. Vikas has sold this plot to Ms. Bali on 21-3-2020 for ₹ 55 lakhs. The valuation as per stamp valuation authority was ₹ 54 lakhs on 21-3-2020.

Discuss the tax consequences of above, in the hands of each one of them, visa, Mr. Ramesh, Mr. Vikas & compute the capital gain in the hands of Mr. Vikas.

Note: None of the party's visa Mr. Ramesh, Mr. Vikas & Ms. Bali are related to each other; the transactions are between outside ₹ (MTP 7 Marks, May'20)

Answer 17

I	Tax consequences in the hands of Mr. Ramesh
	As per section 50C, the stamp duty value of immovable property, being land or building or both, would be deemed to be the full value of consideration arising on transfer of such property, if the same is higher than actual consideration. However, where the stamp duty value does not exceed 105% (110%) of the sale consideration received or accruing as a result of transfer, the consideration so received or accruing shall be deemed to be the full value of the consideration. Accordingly, in this case, capital gains would be computed in the hands of Mr. Ramesh, for A.Y.2020-21, taking the stamp duty value of ₹ 53 lakh of house plot as the full value of consideration arising on transfer of such house plot, since the same exceeds 105% (110%) of the actual consideration of ₹ 45 lakhs. Note – If it is assumed that Mr. Ramesh is a property dealer, the income would be taxable as his business income under section 43CA (As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)
II	Tax consequences in the hands of Mr. Vikas

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Paper 3 - Taxation

<p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 5% of actual sales consideration.</p> <p>Therefore, in this case, ₹ 8 lakhs (₹ 53 lakhs – ₹ 45 lakh) would be taxable in the hands of Mr. Vikas under the head “Income from Other Sources” in A.Y.2020-21 since the difference exceeds ₹2,25,000, being the higher of ₹50,000 and 5% of consideration.</p> <p>At the time of subsequent sale of property by Mr. Vikas to Ms. Bali (on 21.3.2020), short- term capital gains would arise in the hands of Mr. Vikas in A.Y.2020-21, since the property is held by him for less than 24 months.</p>	
Particulars	₹
Full value of consideration (Since actual consideration of ₹55 lakhs is higher than stamp duty value of ₹54 lakh)	55 lakh
Less: Cost of acquisition (Value taken into account for the purpose of section 56(2)(x)2	<u>53 lakh</u>
Short-term capital gains	<u>2 lakh</u>

Question 18

On 29.12.2018, Mr. Gaurav (a bank employee) received ₹7,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2014-15. Out of this interest, ₹2,00,000 relates to the financial year 2015-16; ₹3,45,000 to the financial year 2016-17; and ₹1,55,000 to the financial year 2017-18. How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2019-20? (MTP 2 Marks, March'19)

Answer 18

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as „Income from other sources“.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Computation of interest on enhanced compensation taxable as “Income from other sources” for the A.Y 2019-20:

Particulars	₹
Interest on enhanced compensation taxable under section 56(2)(viii)	7,00,000
Less: Deduction under section 57(iv) (50% x ₹7,00,000)	3,50,000
Taxable interest on enhanced compensation	3,50,000

Question 19

Mr. Ramesh, a builder, entered into an agreement on 1.4.2021 with Mr. Vikas to transfer 4 th Floor in Tower A of a new project for ₹ 1,50,00,000. He received ₹ 25 lakhs as advance in cash on 1.4.2021. Transfer is by way of first time allotment. The stamp duty value of such floor on that date was ₹ 1,70,00,000. The sale deed was executed and registered on 15.6.2021 for the agreed consideration. However, the stamp duty value on that date was ₹ 1,75,00,000.

Paper 3 - Taxation

**Discuss the tax consequences of above, in the hands of Mr. Ramesh and Mr. Vikas.
(MTP 7 Marks April 22)**

Answer 19

I	<p>Tax consequences in the hands of Mr. Ramesh</p> <p>As per section 43CA, where the consideration received or accruing is less than the stamp duty value of an asset (other than capital asset), being land or building or both and such stamp duty value exceeds 110% of the consideration received or accruing, then the stamp duty value shall be deemed to be the full value of the consideration.</p> <p>However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided whole or part of the considered is received by way of account payee cheque/ bank draft/ ECS or through any other prescribed modes on or before the date of agreement. Further, in case of transfer of an asset, being a residential unit, if the stamp duty value of the residential unit does not exceed 120% of the consideration received or accruing, then, such consideration shall be deemed to be the full value of consideration for the purpose of computing profits and gains from transfer of such asset, subject to the satisfaction of following conditions –</p> <ul style="list-style-type: none"> (i) The transfer of residential unit takes place during the period between 12.11.2020 and 30.6.2021 (ii) Such transfer is by way of first time allotment of the residential unit to any person (iii) The consideration received or accruing as a result of such transfer \leq ₹ 2 crores <p>Accordingly, in this case, since ₹ 25 lakhs is received by cash on the date of agreement, stamp duty value on the date of registration is to be considered. Since such stamp duty value (₹ 1.75 crores) does not exceed 120% of the consideration received</p> <p>(₹ 1.50 crores), business income would be computed in the hands of Mr. Ramesh, for A.Y.2022-23, taking sale consideration of ₹ 1,50,00,000 as the full value of consideration arising on transfer.</p>
II	<p>Tax consequences in the hands of Mr. Vikas</p> <p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 10% of actual sales consideration.</p> <p>However, in case the property is a residential unit and conditions of section 43CA are satisfied, the difference would be taxable if such difference exceeds the higher of ₹ 50,000 or 20% of actual sales consideration.</p> <p>In this case, no income would be taxable in the hands of Mr. Vikas under the head "Income from Other Sources" in A.Y.2022-23 since the difference of ₹25,00,000 does not exceed ₹30,00,000, being the higher of ₹50,000 and 20% of consideration.</p>

Question 20

Mr. Suresh entered into an agreement with Mr. Mukesh to sell his residential house located at New Delhi on 25.05.2021 for ₹ 80,00,000. Mr. Mukesh was handed over the possession of the property on 15.12.2021 and the registration process was completed on 14.02.2022.

Mr. Mukesh had paid the sale proceeds in the following manner;

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Paper 3 - Taxation

- (i) 25% through account payee bank draft on the date of agreement.
 - (ii) 50% on the date of the possession of the property.
 - (iii) Balance after the completion of the registration of the title of the property.
- The value determined by the Stamp Duty Authority on 25.05.2021 was ₹ 92,00,000 whereas on 14.02.2022 it was ₹ 94,50,000.

Mr. Suresh had acquired the property on 01.04.2001 for ₹ 21,00,000. After recovering the sale proceeds from Mukesh, he purchased another residential house property in Kanpur for

₹ 22,00,000.

Cost Inflation Index for Financial Year(s)

2001-02 -100

2021-22 - 317

Compute the capital gain arising in the hands of Mr. Suresh for the Assessment Year 2022-23. (MTP 6 Marks Oct'22, Old SM) (Same concept different figures RTP Nov'18, MTP7 Marks, Oct'19)

Answer 20

Computation of Capital Gain of Mr. Suresh for A.Y. 2022-23

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration ₹ 80 lakhs	
Value adopted by Stamp Valuation Authority ₹ 92 lakhs	
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since 25% of ₹ 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Full value of consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	92,00,000
Less: Indexed cost of acquisition of residential house	
[₹ 21 lakhs x 317/100]	66,57,000
Long-term capital gains [Since the residential house property was held by Mr. Suresh for more than 24 months immediately preceding the date of its transfer]	25,43,000
Less: Exemption under section 54	22,00,000
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of residential house property in India within one year before or two years after the date of transfer of original asset.	

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Paper 3 - Taxation

Long-term capital gains chargeable to tax

3,43,000

Question 21

Mr. Riyaan owned a residential house in Noida. It was acquired on 09.09.2013 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2020.

Mr. Riyaan utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on 20.07.2020. The said house property was sold on 31.10.2022 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2023. The property at Panchkula was sold for ₹ 3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2020-21 and 2023-24. All workings should form part of your answer: Cost inflation index for various financial years are as under: (MTP 7 Marks Sep '23, PYP 6 Marks May '19)

2013-14	-	220
2019-20	-	289
2020-21	-	301
2022-23	-	331

Answer 21

Computation of capital gains chargeable to tax for A.Y. 2020-21

Particulars	₹
Full value of consideration received on sale of residential house in Noida	1,57,00,000
Less: Indexed cost of acquisition [₹ 30,00,000 x 289/220]	39,40,909
Long-term capital gain	1,17,59,090
Less: Exemption under section 54	
Purchase of new residential house property at Panchkula for ₹ 2,05,00,000 on 20.7.2020 i.e., within two years from the date of transfer of residential house in Noida; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gain	1,17,59,090
Taxable long term capital gain	Nil

Computation of capital gains chargeable to tax for A.Y. 2023-24

Particulars	₹
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000
Less: Indexed cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 20.7.2020, in this case) is transferred within 3 years of its purchase (i.e., on 31.10.2022, in this case), and the cost of acquisition of the new house (i.e., ₹ 2,05,00,000) is higher than the long-term capital gain (i.e., ₹ 1,17,59,090,) then, the cost of acquisition of such new residential house shall be reduced by long term capital gain exempted earlier,	

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Paper 3 - Taxation

while computing capital gains on sale of the new residential house] [₹ 87,40,910 (₹ 2,05,00,000 – ₹ 1,17,59,090) x 331/301]	96,12,097
Long-term capital gain [Since the residential house is held for more than 24 months]	2,28,87,903
Less: Exemption under section 54	
Purchase of new residential house property in Delhi for ₹ 2,57,00,000 on 2.3.2023 i.e., within two years from 31.10.2022, being the date of transfer of residential house at Panchkula; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gains	2,28,87,903
Taxable long term capital gain	Nil

Question 22

Mr. Pratap, a proprietor has transferred his unit RS to Mr. Raj by way of Slump Sale on December 7, 2018. The summarised Balance Sheet of Mr. Pratap as on that date is given below:

Liabilities	Amount (₹ In lacs)	Assets	Amount (₹ In lacs)
Own Capital	1,850	Fixed Assets:	
Accumulated P & L balance	870	Unit PT	250
Liabilities:		Unit QL	170
Unit PT	190	Unit RS	950
Unit QL	260	Other Assets:	
Unit RS	340	Unit PT	790
Total		Unit QL	860
		Unit RS	490
	3,510	Total	3,510

Other information:

- (i) Slump sale consideration on transfer of Unit RS was ₹ 1540 lacs.
 - (ii) Fixed Assets of Unit RS includes land which was purchased at ₹ 90 lacs in the year 2008 and was revalued at ₹ 180 lacs.
 - (iii) Other fixed assets are reflected at ₹ 770 lacs, (i.e., ₹ 950 lacs less value of land) which represents written down value of those assets as per books. The written down value of these assets is ₹ 630 lacs as per Income-tax Act, 1961.
 - (iv) Unit RS was set up by Mr. Pratap in December, 2006.
- Compute the Capital Gains arising in the hands of Mr. Pratap from slump sale of Unit RS for Assessment year 2019-20. Note: Cost Inflation Indices for the financial year 2006-07 and financial year 2018-19 are 122 and 280, respectively. (RTP May '19, PYP 10 Marks, May 18)**

Answer 22

Computation of capital gain on slump sale of Unit RS for A.Y. 2019 -20

Particulars	₹
Full value of consideration (As per amendment The fair market value of capital asset would be higher of: FMV1- being the fair market value of capital assets transferred by way of slump sale&	15,40,00,000

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FMV2- being the fair market value of the consideration (monetary or non-monetary) received or accruing as a result of transfer by way of slump sale)	
Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [Refer Working Note below]	8,70,00,000
Long-term capital gain [Since the Unit is held for more than 36 months]	6,70,00,000

Working Note: Net worth of Unit-RS

Particulars	₹
Cost of Land (Revaluation not to be considered)	90,00,000
WDV of other depreciable fixed assets as per the Income-tax Act, 1961	6,30,00,000
Other Assets (book value)	4,90,00,000
	12,10,00,000
Less: Liabilities	3,40,00,000
Net worth	8,70,00,000

Notes:

- (1) In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per section 50B.
- (2) "Net worth" of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.
However, any change in the value of assets on account of revaluation shall not be considered for this purpose.
- (3) For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.
- (4) Since Unit RS is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.
- (5) Indexation benefit is not available in case of slump sale

Question 23

Determine the capital gains/loss and tax liability in the following scenarios for the A.Y. 2023-24 assuming the assessee does not have any other source of income:

- (i) **On 12th December, 2022, 1,200 shares of X Ltd., a listed company are sold by Mr. Vishal, a non-resident, @ ₹ 1,550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 25th May, 2017 @ ₹ 425 per share by paying STT at the time of purchase. The price at which these shares were traded in National Stock Exchange on 31st January, 2018 is as follows -**

Particulars	Amount in ₹
Highest Trading Price	680
Average Trading Price	610
Lowest Trading Price	540

- (ii) **Mr. Kabir, a resident aged 45 years, is the owner of residential house which was purchased on 1st August, 2020 for ₹ 19,00,000. He sold the said house on 25th September, 2022 for ₹ 24,50,000. Valuation as per stamp valuation authorities was ₹ 25,50,000 as on the date of sale. CII - 2020-21: 301; 2022-23:331(RTP Nov '23)**

Answer 23

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	Particulars	Amount ₹
(i)	Long-term capital gain on transfer of 1,200 shares of X Ltd. [Taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]	
	Full value of consideration [1,200 x ₹ 1,550]	18,60,000
	Less: Cost of acquisition	8,16,000
	Higher of	
	(i) Cost of acquisition [1,200 x ₹ 425]	5,10,000
	(ii) Lower of fair market value of such shares as on 31.1.2018 and sale consideration [1,200 x 680]	8,16,000
	Fair market value of listed equity shares as on 31.1.2018 [Highest price quoted on the recognized stock exchange i.e., ₹ 680 per share	
	sale consideration ₹ 1,550 per share	
	Long term capital gain taxable u/s 112A/ Total Income	10,44,000
	Tax on long-term capital gain exceeding ₹ 1 lakh i.e., ₹ 9,44,000 @10%	94,400
	Add: Health and Education Cess@4%	3,776
	Tax liability	98,176
	Tax liability (Rounded off)	98,180
	Since Mr. Vishal is a non-resident, benefit of unexhausted basic exemption limit would not be available to him.	
(ii)	Sale of residential house [Long-term capital asset, since held for more than 24 months]	
	Full value of consideration [Actual consideration, since stamp duty value does not exceeds 110% of actual sale consideration]	24,50,000
	Less: Indexed cost of acquisition [₹ 19,00,000 x 331/301]	20,89,369
	Long term capital gain/ Total Income	3,60,631
	Total Income (Rounded off)	3,60,630
	Long-term capital gain taxable u/s 112 @20% on ₹ 1,10,630 [₹ 3,60,630 – ₹ 2,50,000, being unexhausted basic exemption limit]	22,126
	Less: Rebate under section 87A [Since the total income does not exceed ₹ 5 lakhs]	12,500
		9,626
	Add: Health and Education Cess@4%	385
	Tax liability	10,011
	Tax liability (Rounded off)	10,010

Question 24

Mr. Govind purchased 600 shares of "Y" limited at ₹ 130 per share on 26.02.1979. "Y" limited issued him, 1,200 bonus shares on 20.02.1984. The fair market value of these share at Mumbai Stock Exchange as on 1.04.2001 was ₹ 900 per share and ₹ 2,000 per share as on 31.01.2018. On 31.01.2019 he converted 1000 shares as his stock in trade. The shares were traded at

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Mumbai Stock Exchange on that date at a high of ₹ 2,200 per share and closed for the day at ₹ 2,100 per share. On 07.07.2019 Mr. Govind sold all 1800 shares @₹ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid. Compute total income of Mr. Govind for the assessment-year 2020-21. (PYP 5 Marks, Nov'20)

Answer 24

Computation of total income of Mr. Govind for the A.Y.2020-21

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,100 x 1000 shares) [See Note below]	21,00,000	3,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] (See Working Note below)	16,00,000	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)		
	Full value of consideration [1000 shares x ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 2,000] (See Working Note below)	20,00,000	1,00,000
	Total Income		7,20,000
	Working Note - Cost of acquisition (per share)		0
	Higher of (i) and (ii), below	2,000	
(i)	₹ 900 per share, being		
	In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		
	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹ 2,000 per share, being the lower of		
	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration - ₹ 2,400 per share		

Note – Explanation to section 55(2) (ac) defines “fair market value” as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2019, being the date of conversion of capital asset into stock in trade for which we have to consider the definition of

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“fair market value” as per section 2(22B). As per this definition, FMV refers to the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date.

In the question, two prices are given on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2019. Alternatively, highest price can also be considered as the FMV as on 31.1.2019. In such case, the total income of Mr. Govind would be computed in the following manner:

Alternate Answer

Computation of total income of Mr. Govind for the A.Y.2020-21

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares) [See Note above]	22,00,000	2,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] (See Working Note below)	16,00,000	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)		
	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion] [See Note above]	22,00,000	2,00,000
	Less: Cost of acquisition [1000 shares x ₹ 2,000] (See Working Note below)	20,00,000	
	Total Income		7,20,000
	Working Note - Cost of acquisition (per share)		
	Higher of (I) and (ii), below	2,000	
(I)	₹ 900 per share, being		
	In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		
	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹2,000 per share, being the lower of		

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	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration - ₹ 2,400 per share		

Note - It is possible to take a view that since no STT was paid on the date of conversion of capital asset, being listed shares into stock in trade, capital gains have to be computed u/s 112 and not 112A. If this view is taken, the total income of Mr. Govind would, accordingly, be computed in the following manner:

Computation of total income of Mr. Govind for the A.Y.2020-21

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,100 x 1000 shares) [See Note below]	21,00,000	3,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 289/100] (See Working Notes 1 and 2 below)	20,80,800	
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)	(1,60,800)	
	Full value of consideration [1000 shares x ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 900 x 280/100] (See Working Notes 1 and 2 below)]	25,20,000	
		(4,20,000)	
	Long-term capital loss to be carried forward = (1,60,800) + (4,20,000) =	(5,80,800)	
	Total Income		3,00,000
	Working Note -		
	1. Cost of acquisition (per share)		
	Higher of (i) and (ii), below i.e., ₹ 900 per share		
(i)	₹ 900 per share, being the FMV as on 1.4.2001		

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(ii)	In case of shares purchased - Original cost of acquisition (₹ 130)		
	In case of bonus shares – Nil		
2.	In case of 800 shares sold during the year, the CII of F.Y.2019-20 i.e., 289 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2019, the CII of the year of conversion, i.e., F.Y.2018-19 i.e., 280 has to be considered to compute the indexed cost of acquisition.		

Note – Explanation to section 55(2) (ac) defines “fair market value” as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2019, being the date of conversion of capital asset into stock in trade for which we have to consider the definition of “fair market value” as per section 2(22B). As per this definition, FMV refers to the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date. In the question, two prices are given on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2019. Alternatively, highest price can also be considered as the FMV as on 31.1.2019. In such case, the total income of Mr. Govind would be computed in the following manner:

Alternate Answer

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares) [See Note above]	22,00,000	2,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 289/100] (See Working Notes 1 and 2 below)	20,80,800	
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)	(1,60,800)	
	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion]	22,00,000	

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	Less: Cost of acquisition [1000 shares x ₹ 900 x 280/100] (See Working Notes 1 and 2 below)]	25,20,000	
	Long-term capital loss to be carried forward = (1,60,800) + (3,20,000) =	(3,20,000)	
		(4,80,800)	
	Total Income		2,00,000
	Working Note – 1. Cost of acquisition (per share)		
	Higher of (I) and (ii), below i.e., ₹ 900 per share		
(I)	₹ 900 per share, being the FMV as on 1.4.2001		
(ii)	In case of shares purchased - Original cost of acquisition (₹130)		
	In case of bonus shares – Nil		
2.	In case of 800 shares sold during the year, the CII of F.Y.2019-20 i.e., 289 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2019, the CII of the year of conversion, i.e., F.Y.2018-19 i.e., 280 has to be considered to compute the indexed cost of acquisition.		

Question 25

Ms. Mishika has entered into an agreement with M/s CVM Build Limited on 25.04.2017 in which she agrees to allow such Company to develop a shopping mall on land owned by her in New Delhi. She purchased such land on 05.05.2009 for ₹ 15,00,000. In consideration, M/s CVM Build Limited will provide 20% share in shopping mall to Mishika. The certificate of completion of shopping mall was issued by authority as on 26.12.2020. On such date, Stamp duty value of shopping mall was ₹ 4,14,00,000. Subsequently on 18.03.2021, she sold her 15% share in shopping mall to Mr. Ketav in consideration of ₹ 65,00,000.

She has also purchased a house on 09.05.2020 in consideration of ₹ 46,00,000 and occupied for own residence. Punjab National Bank has sanctioned a loan of ₹ 35,50,000 (80% of stamp value) at the interest rate of 12% per annum on 01.05.2020 and disbursement was made on 01.06.2020. She does not own any other residential house on the date of sanction of loan. Principal amount of ₹ 1,30,000 was paid during the financial year 2020-21.

Cost Inflation Indices: 2020-21: 301, 2009-10: 148

Compute total income of Ms. Mishika for the assessment year 2021 -22 assuming that she has not opted for the provisions under section 115BAC. (PYP 7 Marks Dec '21)

Answer 25

Computation of total income of Ms. Mishika for the A.Y.2021 -22

Particulars	Amount (₹)	Amount (₹)
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Income from house property [Self-occupied]		Nil
Net Annual Value		
Less: Interest on housing loan of ₹ 3,55,000 [$\text{₹ } 35,50,000 \times 12\% \times 10/12$ months] restricted to ₹ 2,00,000/-	2,00,000	Nil
	(2,00,000)	
Less: Set-off of loss against long-term capital gains	2,00,000	
Long-term capital gains on transfer of land under specified agreement Since Ms. Mishika transferred her share in the project after issue of completion certificate, capital gains on transfer of land handed over to developer under specified agreement in the P.Y. 2017-18 would be taxable in the		
previous year 2020-21, being the year in which certificate of completion is issued as per section 45(5A). Accordingly, capital gain arising in respect of land would be-		
Full value of consideration, being 20% share in shopping mall [Stamp duty value on the date of issue of completion certificate ($\text{₹ } 4,14,00,000 \times 20\%$)]	82,80,000	
Less: Indexed of cost of acquisition [$\text{₹ } 15,00,000 \times 301/148$]	30,50,676	
Long-term capital gain	52,29,324	
Less: Deduction under section 54F		
Deduction in respect of amount invested for purchase of a residential house acquired within one year prior to date of transfer would be allowable proportionately, since amount invested is less than the net consideration. Accordingly, deduction would be ₹ 29,05,180 ($\text{₹ } 52,29,324 \times \text{₹ } 46,00,000 / \text{₹ } 82,80,000$)	29,05,180	
Long-term capital gains	23,24,144	
Less: Set-off of loss from house property [It is beneficial to set-off loss from house property against long-term capital gains, since in case of Ms. Mishika total income comprises of LTCG taxable@20% and STCG taxable at normal slab rates; and she can claim deduction of ₹ 2,80,000 under Chapter VI-A against STCG of ₹ 2,90,000. Moreover, the remaining STCG would also not be taxable since it would be below the basic exemption limit]	2,00,000	
	21,24,144	
Short-term capital gains Sale of 15% share in shopping mall [short-term capital asset, since held for not more than 24 months]		
Net Sales consideration	65,00,000	

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Less: Cost of acquisition, being the full value of consideration taxable on transfer of land [$\text{₹ } 4,14,00,000 \times 15\%$]		62,10,000
Short-term capital gains		2,90,000
Gross Total Income		24,14,144
Less: Deductions under Chapter VI-A (allowable against short-term capital gains of ₹ 2,90,000)		
Deduction under section 80C – repayment of principal	1,30,000	
amount of housing loan		
Deduction under section 80EEA – Ms. Mishika would be eligible for deduction of interest on housing loan ($\text{₹ } 3,55,000 - \text{₹ } 2,00,000 = \text{₹ } 1,55,000$) to the extent of		
₹ 1,50,000, since stamp duty value of the house does not exceed ₹ 45,00,000 [being ₹ 44,37,500 ($\text{₹ } 35,50,000 \times$		
100/80)] and she does not own any other residential house on the date of sanction of loan.	1,50,000	2,80,000
Total Income		21,34,144
Total Income (rounded off)		21,34,140

Note -

As per section 45(5A), any capital gains arising from the transfer of a capital asset, being land or building or both, under a specified agreement, is chargeable to income-tax as income of the previous year in which the certificate of completion is issued by the competent authority. In the above solution, the CII of F.Y.2020-21 has been considered on the basis of parity, since, as per section 45(5A), it is the stamp duty value of the developed property (shopping mall, in this case) on the date of issue of certificate of completion (26.12.2020), which is deemed as the full value of consideration for transfer of land handed over to the developer.

Alternate view -

The definition of transfer, inter alia, includes any arrangement or transaction where any rights are handed over in execution of part performance of contract, even though the legal title has not been transferred. Hence, in case of 'specified agreement(s)', 'transfer' takes place at the time when the owner of the immovable property hands over the same to the developer i.e., in F.Y.2017-18 in this case.

As per the plain reading of definition of 'indexed cost of acquisition', the CII of the year in which the asset (land, in this case) is transferred has to be considered. Accordingly, as per this interpretation, CII of F.Y. 2017-18 i.e., 272 can be considered for computing indexed cost of acquisition. If the CII of F.Y.2017-18 is considered on the basis of this line of reasoning, the figures of long-term capital gains and total income would accordingly change. However, the CII of F.Y.2017-18 has not been given in the question for the purpose of making such computation.

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Question 26

Mr. Ramesh entered into an agreement with Mr. Vikas to sell a plot on 5.4.2022 for ₹ 45 lakhs. He received an advance of ₹ 15 lakhs from him on the date of agreement by account payee cheque. Transfer took place on 10-9-2022. The valuation determined by the stamp valuation authority on the date of agreement and transfer was ₹ 49 lakhs and ₹ 53 lakhs, respectively.

Mr. Vikas has sold this plot to Ms. Babli on 21-3-2023 for ₹ 55 lakhs.

The valuation as per stamp valuation authority was ₹ 54 lakhs on 21-3-2023.

Discuss the tax consequences of above, in the hands of Mr. Ramesh and Mr. Vikas. Also, compute the capital gain in the hands of Mr. Vikas.

Note: None of the parties viz Mr. Ramesh, Mr. Vikas & Ms. Babli are related to each other; the transactions are between outsiders. (RTP Nov 22)

Answer 26

I.	Tax consequences in the hands of Mr. Ramesh
	<p>As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.</p> <p>In this case, since ₹ 15 lakhs is received through account payee cheque on the</p>

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	<p>date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration.</p> <p>Accordingly, in this case, capital gains would be computed in the hands of Mr. Ramesh, for A.Y.2023-24, taking the actual consideration of ₹ 45 lakh of plot as the full value of consideration arising on transfer of such plot, since the stamp duty value on the date of agreement does not exceed 110% of the actual consideration.</p> <p>Note – If it is assumed that Mr. Ramesh is a property dealer, the income would be taxable as his business income under section 43CA</p>								
II.	Tax consequences in the hands of Mr. Vikas								
	<p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 10% of actual sales consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since ₹ 15 lakhs is paid through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered.</p> <p>Therefore, nothing would be taxable in the hands of Mr. Vikas under the head “Income from Other Sources” in A.Y.2023-24 since the difference between stamp duty value on the date of agreement and actual consideration does not exceed ₹ 4,50,000, being the higher of ₹ 50,000 and 10% of consideration.</p> <p>At the time of subsequent sale of property by Mr. Vikas to Ms. Babli (on 21.3.2023), short-term capital gains would arise in the hands of Mr. Vikas in A.Y.2023-24, since the property is held by him for less than 24 months.</p>								
	<table border="1"> <thead> <tr> <th>Particulars</th> <th>₹</th> </tr> </thead> <tbody> <tr> <td>Full value of consideration (Since actual consideration of ₹ 55 lakh is higher than stamp duty value of ₹ 54 lakh)</td> <td>55 lakh</td> </tr> <tr> <td>Less: Cost of acquisition</td> <td><u>45 lakh</u></td> </tr> <tr> <td>Short-term capital gains</td> <td><u>10 lakh</u></td> </tr> </tbody> </table>	Particulars	₹	Full value of consideration (Since actual consideration of ₹ 55 lakh is higher than stamp duty value of ₹ 54 lakh)	55 lakh	Less: Cost of acquisition	<u>45 lakh</u>	Short-term capital gains	<u>10 lakh</u>
Particulars	₹								
Full value of consideration (Since actual consideration of ₹ 55 lakh is higher than stamp duty value of ₹ 54 lakh)	55 lakh								
Less: Cost of acquisition	<u>45 lakh</u>								
Short-term capital gains	<u>10 lakh</u>								

Question 27

- (i) **Examine the taxability of capital gains in the following scenarios for the Assessment Year 2022-23, determine the taxable amount and rate of tax applicable:**

On 20th December, 2021 5,000 shares of AB Ltd., a listed company are sold by Mr. Kumar @ 500 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5th June, 2017 @ ₹ 425 per share by paying STT at the time of purchase. On 31st January, 2018, the shares of AB Ltd. were traded on a recognized stock exchange at the Fair Market Value of ₹ 450 per share. (MTP 2Marks Sep'22)

- (ii) **Mr. Satish is the owner of a residential house which was purchased on 1st July, 2015 for ₹ 10,50,000. He sold the said house on 14th October, 2021 for ₹ 25,00,000. Valuation as per stamp valuation authorities was ₹ 45,00,000. He**

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Paper 3 - Taxation

invested ₹ 15,00,000 in RECL Bonds on 20th March, 2022.

The Cost Inflation index for-

F.Y. 2015-16 254

F.Y. 2021-22 317

(PYP 4 Marks July 21)

Answer 27

(i)	Long-term capital gain on transfer of 5,000 shares of AB Ltd. [taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]	
	Full value of consideration [5,000 x ₹ 500]	25,00,000
	Less: Cost of acquisition	
	Higher of	
	Cost of acquisition [5,000 x ₹ 425]	21,25,000
	Lower of fair market value per share as on 31.1.2018	
	22,50,000	
	i.e., ₹ 450 per share and sale consideration i.e., ₹ 500 per share [5,000 x ₹ 450]	22,50,000
	Long term capital gain taxable u/s 112A	2,50,000
	Long-term capital gain exceeding ₹ 1 lakh i.e., ₹ 1,50,000 would be taxable @10%	
(ii)	Sale of residential house [long-term capital asset, since held for more than 24 months]	
	Full value of consideration [stamp duty value, since it exceeds 110% of actual sale consideration]	45,00,000
	Less: Indexed cost of acquisition [₹ 10,50,000 x 317/254]	13,10,433
		31,89,567
	Less: Deduction under section 54EC	15,00,000
	Since ₹ 15,00,000 is invested in RECL bonds on 20th March 2022 i.e.,	
	before six months from the date of transfer	
	Long-term capital gain taxable u/s 112 @ 20%	16,89,567

Question 28

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

He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in July 2019. The sale consideration was fixed at ₹ 600 lakhs and on the date of agreement, Mr. Yusuf received ₹ 20 lakhs as advance in cash. The stamp duty value on that date was ₹ 620 lakhs.

The sale deed was executed and registered on 10-2-2020 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 650 lakhs. Mr. Yusuf paid 1% as brokerage on sale consideration received.

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Subsequent to sale, Mr. Yusuf made following investments:

- (iv) **Acquired a residential house at Delhi for ₹ 80 lakhs.**
- (v) **Acquired a residential house at London for ₹ 40 lakhs.**
- (vi) **Subscribed to NHAI bond: ₹ 45 lakhs on 29-5-2020 and ₹ 15 lakhs on 12-7-2020.**

Compute the income chargeable under the head "Capital Gains" for A.Y. 2020-21. The choice of exemption must be in the manner most beneficial to the assessee. (RTP May 18)

Cost Inflation Index:	F.Y. 2004-05	113
	F.Y. 2006-07	122
	F.Y. 2019-20	289

Answer 28

Computation of income chargeable under the head "Capital Gains" for A.Y.2020-21

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 600 lakhs		
Value adopted by Stamp Valuation Authority ₹ 650 lakhs		650.00
Gross Sale consideration		600.00
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% (110%) of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
(As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)		
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through any other prescribed electronics mode on or before the date of agreement.		
In this case, since advance of ₹20 lakh is received in cash on the date of agreement, stamp duty value on the date of registration has to be considered. Since stamp duty value on the date of registration exceeds 105% (110%) of the actual consideration, such stamp duty value on the date of registration would be taken as full value of consideration]		6.00
Less: Brokerage@1% of sale consideration (1% of ₹ ₹600 lakhs)		
Net Sale consideration		644.00

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Paper 3 - Taxation

Less: Indexed cost of acquisition - Cost of vacant land, ₹ Rs 80 lakhs, plus registration and other expenses i.e., ₹ Rs 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 289/113]	225.06	594
- Construction cost of residential building (₹Rs 100 lakhs x 289/122)	<u>236.89</u>	<u>461.95</u>
Long-term capital gains before exemption		182.05 132.05
Less: Exemption under section 54		80.00
Since the amount of capital gain does not exceed ₹ Rs 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of two residential house property in India one year before or two years after the date of transfer of original asset, at the option of the assessee. However, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in London since the residential house property should be purchased or constructed in India		
Less: Exemption under section 54EC Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.08.2020) would qualify for exemption, to the maximum extent of ₹50 lakhs. Therefore, in the present case, exemption can be availed only to the extent of ₹50 lakh out of ₹ 60 lakhs, even if the both the investments are made on or before 09.08.2020 (i.e., within six months from the date of transfer).		50.00
Long term capital gains chargeable to tax		52.05 2.05

Note: Since the residential house property was held by Mr. Yusuf for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain

Section - B

Question 1

Mr. Mithun purchased 100 equity shares of M/s Good money Co. Ltd. on 01- 04- 2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2022. He has also received dividend of ₹ 10 per share on 01.05.2023.

He has sold all the shares on 01.10.2023 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Paper 3 - Taxation

Compute his total income and tax liability for A.Y. 2024-25 if Mr. Mithun pays tax under default tax regime, assuming that he is having no income other than given above. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Answer 1

Computation of total income & tax liability of Mr. Mithun for A.Y. 2024-25

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) (Refer Note 2)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	NIL
Short term capital gains	3,96,000
Income from other sources	
Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]	2,000
Total Income	5,94,000
Tax Liability	
Tax on dividend (since it is lower than the basic exemption limit)	Nil
Tax on STCG u/s 11A	
15% of (₹ 3,96,000 - ₹ 2,98,000, being unexhausted basic exemption limit)	14,700
Tax on LTCG u/s 112A	
10% of (₹ 1,96,000 - ₹ 1,00,000)	9,600
	24,300
Less: Rebate u/s 87A	14,700
	9,600
Add: Health and education cess @4%	384
Tax liability	9,984
Tax liability (rounded off)	9,980

Notes:

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- (1) Long-term capital gains exceeding ₹ 1 lakh on sale of original shares through a recognized stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10%, without indexation benefit.
- (2) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
 - Cost of acquisition i.e., ₹ 1,000 per share and
 - lower of Fair market value of such asset i.e., ₹ 2,000 per share and Full value of consideration i.e., ₹ 4,000 per share.
 Therefore, the cost of acquisition of original share is ₹ 2,000 per share.
- (3) Since bonus shares are held for less than 12 months before sale, the gain arising therefrom is a short-term capital gain chargeable to tax @ 15% as per section 111A after adjusting the unexhausted basic exemption limit (₹ 3,00,000 less ₹ 2,000, being the amount of dividend). Since Mr. Mithun is paying tax under default tax regime, he is entitled for a basic exemption limit of ₹ 3,00,000 for A.Y. 2024-25.
- (4) Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
- (5) Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
- (6) Securities transaction tax is not allowable as deduction.

Question 2

Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2023. The fair market value as on 31.3.2023 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2024.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2022-23: 331; F.Y. 2023-24: 348.

Answer 2

Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.

The cost inflation index of the financial year in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section

45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2024-25.

Particulars	₹
Capital Gains	
Full value of consideration (Fair market value on the date of conversion)	3,00,000
Less: Indexed cost of acquisition (₹ 80,000 × 331/113)	2,34,336

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Paper 3 - Taxation

Long-term capital gain	65,664
Profits & Gains of Business or Profession	
Sale price of stock-in-trade	3,25,000
Less: Fair market value on the date of conversion	3,00,000
	25,000

Computation of taxable income of Mr. Aarav for A.Y.2024-25

Particulars	
Profits and gains from business or profession	25,000
Long term capital gains	65,664
Taxable Income	90,664

Question 3

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2023.

She started her real estate business on 21st March, 2023 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2024. She sold 10 flats at ₹ 30 lakhs per flat in March, 2024. The remaining 5 flats were held in stock as on 31st March, 2024.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2024 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2024.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for

A.Y. 2024-25 indicating clearly the reasons for treatment for each item. [Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2022-23: 331; F.Y. 2023-24: 348].

Answer 3**Computation of capital gains and business income of Harshita for A.Y. 2024-25**

Particulars	
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [$\frac{35,00,000 \times 331}{113}$]	1,02,52,212

Paper 3 - Taxation

	1,07,47,788
Proportionate capital gains arising during A.Y. 2024-25 [$1,07,47,788 \times 2/3$]	71,65,192
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2024-25	21,65,192
Business Income	
Sale price of flats [$10 \times \text{` 30 lakhs}$]	
Less: Cost of flats	3,00,00,000
Fair market value of land on the date of conversion [$\text{` 210 lacs} \times 2/3$]	0
Cost of construction of flats [$10 \times \text{` 10 lakhs}$]	1,40,00,000
Business income chargeable to tax for A.Y.2024-25	0
	1,00,00,000
	60,00,000

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e., P.Y.2022-23, in this case).
- (2) As per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2022-23) and not up to the year of sale of stock-in-trade (i.e., P.Y.2023-24).
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.
In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2023-24, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2024-25.
- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ` 50 lakhs , whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.
Therefore, even though investment of ` 50 lakhs has been made in bonds of NHAI during the P.Y. 2023-24 and investment of ` 50 lakhs has been made in bonds of RECL during the P.Y. 2024-25, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2024-25, in respect of long-term capital

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Paper 3 - Taxation

gain arising on sale of long-term capital asset(s) during the P.Y. 2023-24, is only ₹ 50 lakhs.

Question 4

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2023 (i.e., WDV as on 31.3.2023 after providing depreciation for P.Y. 2022-23) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

(i) Towards loss of stock	₹ 4,80,000
(ii) Towards damage of machinery	₹ 6,00,000
(iii) Towards gold chain and diamond ring	₹ 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

Answer 4

- (i) Compensation towards loss of stock:** Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

- (ii) Compensation towards damage to machinery:** The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note - If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

- (iii) Compensation towards loss of gold chain and diamond ring:** Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not "personal effects", which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

Paper 3 - Taxation

Question 5

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2023 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through account payee bank draft on the date of agreement.
- (ii) 60% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title to the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2023 and the registration process was completed on 14.01.2024. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2023 was ₹ 1,70,00,000;
- (b) on 15.12.2023 was ₹ 1,71,00,000; and
- (c) on 14.01.2024 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2024 and another in Delhi for ₹ 35,00,000 on 28.5.2024.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2024-25.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2023-24 - 348

Answer 5

Computation of income chargeable under the head "Capital Gains" of Mr. Sarthak for A.Y. 2024-25

Particulars	
Capital Gains on sale of residential house	
Actual sale consideration	
1,50,00,000	
Value adopted by Stamp Valuation Authority on the date of agreement	
1,70,00,000	
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.	
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of	

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Paper 3 - Taxation

agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp	
duty value on the date of agreement would be considered	
for determining the full value of consideration]	
Full value of sale consideration [Stamp duty value on the	1,70,00,000
date of agreement, since it exceeds 110% of the actual sale	
consideration]	
Less: Indexed cost of acquisition of residential house	
[₹ 30 lakhs x 348/100]	1,04,40,000
Long-term capital gains [Since the residential house	65,60,000
property was held by Mr. Sarthak for more than 24 months	
immediately preceding the date of its transfer]	
Less: Exemption u/s 54	55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore,	
he would be eligible for exemption in respect of both the	
residential house properties purchased in India. The capital	
gain arising on transfer of a long-term residential property	
shall not be chargeable to tax to the extent such capital	
gain is invested in the purchase of these residential house	
properties in India within one year before or two years	
after the date of transfer of original asset. Thus, he would	
be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000	
and ₹ 35,00,000 invested on acquisition of residential	
house property in Kanpur and Delhi, respectively.	
Long term capital gains chargeable to tax	10,60,000

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Question 6

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2023 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-1-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- (iv) Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2024 and 15.5.2024
- (v) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2024.
- (vi) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 29-3-2024 and for ₹ 40 lakhs on 12-5-2024.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2024-25. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2023-24 - 348.

Answer 6

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2024-25

Particulars	Rs.(in lakhs)	Rs.(in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration Rs. 810 lakhs		
Value adopted by Stamp Valuation Authority Rs. 890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty		
value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		

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However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.		
In this case, since advance of Rs. 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration)		
Gross Sale consideration (actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		810.00
Less: Brokerage @1% of sale consideration (1% of Rs. 810 lakhs)		8.10
Net Sale consideration		801.90
Less: Indexed cost of acquisition		
- Cost of vacant land, Rs. 80 lakhs, plus registration and other expenses i.e., Rs. 8 lakhs, being 10% of cost of land [$88 \text{ lakhs} \times 348/117$]	261.74	
- Construction cost of residential building ($100 \text{ lakhs} \times 348/129$)	269.77	531.51
Long-term capital gains		270.39
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: Exemption under section 54		130.00
Where long-term capital gains exceed Rs. 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., Rs. 130 lakhs as exemption.		
Less: Exemption under section 54EC		50.00

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<p>Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2022), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of Rs. 50 lakhs, whether such investment is made in the current financial year or subsequent financial year.</p> <p>Therefore, in the present case, exemption can be availed only to the extent of Rs. 50 lakh out of Rs. 90 lakhs, even if the both the investments are made on or before 13.7.2022 (i.e., within six months after the date of transfer).</p>		
Long term capital gains chargeable to tax		90.39

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

Question 7

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty value @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2023, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2024. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2023 was ₹ 39,00,000 and on 20th February, 2024 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2024-25.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2023-24: 348

Answer 7

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Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
Less: Expenses on transfer (Brokerage @1% of Rs. 30,50,000)		30,500
Net sale consideration		38,69,500
Less: Indexed cost of acquisition (Note 1)	30,40,030	
Less: Indexed cost of improvement (Note 2)	5,15,125	35,55,155
Long term capital gain		3,14,345

Notes:

(7) Computation of indexed cost of acquisition

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition,		10,70,000
Being the higher of		
(i) lower of Fair market value i.e.,	10,70,000	

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₹ 11,85,000 and Stamp duty value		
i.e., ₹ 10,70,000, on April 1, 2001		
(ii) Actual cost of acquisition	3,59,000	
(₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)		
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition for indexation		9,59,000
Indexed cost of acquisition		33,37,320
(₹ 9,59,000 x 348/100)		

(8) Computation of indexed cost of improvement

Particulars	Amount (₹)
Cost of construction of first floor in August, 2015	3,90,000
Indexed cost of improvement (₹ 3,90,000 x 348/254)	5,34,331

- (9) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y.2008-09) = ₹ 9,59,000]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head “Income from Other Sources” and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “Income from other sources” in the hands of Mr. Shiva in A.Y.2016-17.

Question 8: illustration

How will you calculate the period of holding in case of the following assets?

- (1) Shares held in a company in liquidation
- (2) Bonus shares
- (3) Flat in a co-operative society

Answer 8

- (1) **Shares held in a company in liquidation** - The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.
- (2) **Bonus shares** - The period of holding shall be reckoned from the date of

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allotment of bonus shares and will end with the date of transfer.

- (3) **Flat in a co-operative society** - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note – Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47)(vi). Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.

Question 9: illustration

A is the owner of a car. On 1-4-2021, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2022 and gets a profit of Rs. 1 lakh. Discuss the tax implication in his hands under the head “Capital gains”.

Answer 9

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

Question 10: illustration

X converts his capital asset (acquired on June 10, 2003 for Rs. 60,000) into stock-in-trade on March 10, 2021. The fair market value on the date of the above conversion was Rs. 5,50,000. Subsequently sells the stock-in-trade so converted for Rs. 6,00,000 on June 10, 2021. Discuss the year chargeability of capital gain and business income.

Answer 10

Since the capital asset is converted into stock-in-trade during the previous year 2020-21 relevant to the A.Y. 2021-22, it will be a transfer under section 2(47) during the P.Y. 2020-21. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2022-23, since the stock-in-trade has been sold only on June 10, 2021. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2021) will be the full value of consideration for computation of capital gains. The business income of Rs. 50,000 (i.e., Rs. 6,00,000 (-) Rs. 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y. 2022-23. Thus, both capital gains and business income would be chargeable to tax in the A.Y. 2022-23.

Question 11: illustration

M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31-3-2022. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by Rs. 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax Rs. 50,000 as capital gain. Is he justified?

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Answer 11

In the above example, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

Question 12: illustration

In which of the following situations capital gains tax liability does not arise?

- (i) **Mr. A purchased gold in 1970 for Rs. 25,000. In the P.Y. 2021-22, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was Rs. 1,00,000.**
- (ii) **A house property is purchased by a Hindu undivided family in 1945 for Rs. 20,000. It is given to one of the family members in the P.Y. 2021-22 at the time of partition of the family. FMV on the date of partition was Rs. 12,00,000.**
- (iii) **Mr. B purchased 50 convertible debentures for Rs. 40,000 in 1995 which are converted into 500 shares worth Rs. 85,000 in November 2021 by the company.**

Answer 12

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), transfer of a capital asset under a gift is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

Question 13: illustration

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

Answer 13

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain. Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction. Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not

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be taxable.

Question 14: illustration

Examine, with reasons, whether the following statements are True or False.

- (i) **Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer" for the purpose of capital gains.**
- (ii) **Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.**
- (iii) **Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.**

Answer 14

- (i) **False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.
- (ii) **True:** Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.
- (iii) **True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

Question 15: illustration

Mr. A converts his capital asset acquired for an amount of Rs. 50,000 in June, 2003 into stock-in-trade in the month of November, 2019. The fair market value of the asset on the date of conversion is Rs. 4,50,000. The stock-in-trade was sold for an amount of Rs. 6,50,000 in the month of September, 2021. What will be the tax treatment?

Financial year	Cost Inflation Index
2003-04	109
2019-20	289

Answer 15

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2019-20) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2021-22). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2021-22). The long-term capital gains and business income for the A.Y.2022-23 are calculated as under:

Particulars	Rs.	Rs.
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	

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Less: Cost of the stock-in-trade (FMV on the date of conversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition ($50,000 \times \frac{289}{109}$)	1,32,569	3,17,431

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

Question 16: illustration

Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2020. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for P.Y. 2020-21 was Rs. 8,50,000. Three of the old machines were sold on 10th June, 2021 for Rs. 11,00,000. A second hand plant was bought for Rs. 8,50,000 on 30th November, 2021. You are required to:

- (i) determine the claim of depreciation for Assessment Year 2022-23.
- (ii) compute the capital gains liable to tax for Assessment Year 2022-23.
- (iii) If Singhania & Co. had sold the three machines in June, 2021 for Rs. 21,00,000, will there be any difference in your above workings? Explain.

Answer 16

(i) Computation of depreciation for A.Y.2022-23

Particulars	Rs.
Opening balance of the block as on 1.4.2021 [i.e., W.D.V. as on 31.3.2021 after providing depreciation for P.Y. 2020-21]	8,50,000
Add: Purchase of second hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2022	6,00,000

Since the value of the block as on 31.3.2022 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is Rs. 45,000, being 7½% of Rs. 6,00,000.

- (ii) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:
 - (a) When one or some of the assets in the block are sold for consideration more than the value of the block.
 - (b) When all the assets are transferred for a consideration more than the value of the block.
 - (c) When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains. In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block. In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

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- (iii) If the three machines are sold in June, 2021 for Rs. 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	Rs.	Rs.
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2021	8,50,000	
[i.e., W.D.V. as on 31.3.2021 after providing depreciation for P.Y. 2020-21]		
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

Question 17: illustration

Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2023 his Unit 1 by way of slump sale for a total consideration of Rs. 25 lacs. The fair market value of the unit on 1.4.2023 is Rs. 30 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were Rs. 28,000. His Balance Sheet as on 31.3.2023 is as under:

Liabilities	Total (₹)	Assets	Unit 1 (₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation reserve (for building of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

- Revaluation reserve is created by revising upward the value of the building of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2021 for Rs. 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2024-25.

Answer 17

Computation of capital gains on slump sale of Unit 1

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Particulars	Rs.
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2023 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	17,21,375

Notes:

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	Rs.	Rs.
Building (excluding Rs. 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (1,50,000 – Rs. 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of Rs. 1,50,000)	37,500	
Bank Loan (70% of Rs. 2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

2. Written down value of patents as on 1.4.2021

Value of patents:	Rs.
Cost as on 1.7.2019	50,000
Less: Depreciation @ 25% for Financial Year 2019-20	12,500
Balance as on 1.4.2020	37,500
Less: Depreciation for Financial Year 2020-21	9,375
Balance as on 1.4.2021	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of Rs. 3 lakh and Rs. 9 lakh (12 lakh – Rs. 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

Question 18: illustration

Mr. Cee purchased a residential house on July 20, 2021 for Rs. 10,00,000 and made some additions to the house incurring Rs. 2,00,000 in August 2021. He sold the house property in April 2023 for Rs. 20,00,000. Out of the sale proceeds, he spent Rs. 5,00,000 to purchase another house property in September 2023. What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y. 2024-25?

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Answer 18

The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available.

Particulars	Rs.
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short-term capital gains	8,00,000

Note: The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is Rs. 8,00,000.

Question 19: illustration

Long term capital gain of Rs. 75 lakh arising from transfer of building on 1.5.2021 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHA under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

Answer 19

False: The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHA or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to Rs. 50 lakh, whether such investment is made during the relevant previous year or the subsequent previous year, or both. Therefore, in this case, the exemption under section 54EC can be availed only to the extent of Rs. 50 lakh, provided the investment is made before 1.11.2023 (i.e., within six months from the date of transfer).

Question 20: illustration

Calculate the income-tax liability for the assessment year 2024-25 in the following cases:

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Resident	Non-resident	Resident	Non-resident
Total income other than long-term capital gain	2,40,000	2,80,000	5,90,000	4,80,000
Long-term capital gain	15,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale)	60,000 from sale of agricultural land in rural area	Nil

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		and purchase of shares)		
Note - Assume that Mr. A, Mrs. B, Mr. C and Mr. D do not opt for section 115BAC.				

Answer 20**Computation of income-tax liability for the A.Y.2024-25**

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	Rs. 2,50,000	Rs. 2,50,000	Rs. 5,00,000	Rs. 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	Rs. 15,000 [Taxable @20% u/s 112]	Rs. 10,000 [exempt u/s 112A since it is less than Rs. 1,00,000]	Rs. 60,000 (Exempt - not a capital asset)	-
Other income	Rs. 2,40,000	Rs. 2,80,000	Rs. 5,90,000	Rs. 4,80,000
Tax liability				
On LTCG (after adjusting unexhausted basic exemption limit of Rs. 10,000)	Rs. 1,000	-	-	-
On Other income	Nil	Rs. 1,500	Rs. 18,000	Rs. 11,500
	Rs. 1,000	1,500	Rs. 18,000	Rs. 11,500
Less: Rebate u/s 87A	Rs. 1,000	-	--	
	Rs. Nil	Rs. 1,500	Rs. 18,000	Rs. 15,000
Add: Health & education cess (HEC) @4%	Nil	Rs. 60	Rs. 720	Rs. 460
Total tax liability	Nil	Rs. 1,560	Rs. 18,720	Rs. 11,960

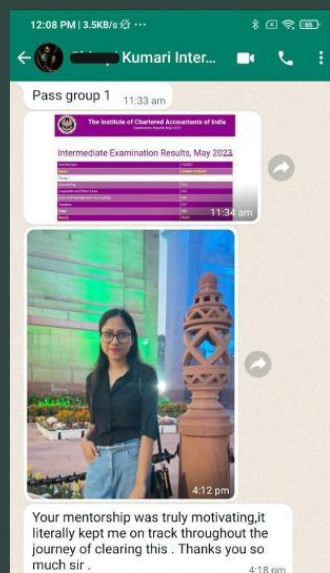
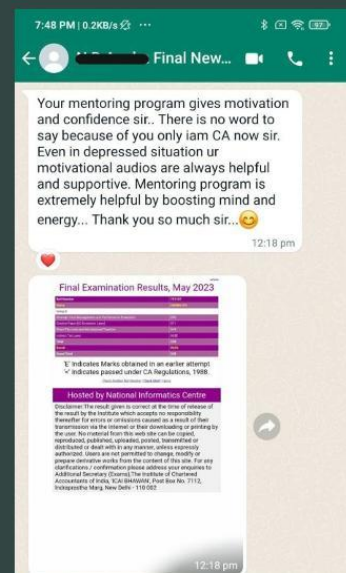
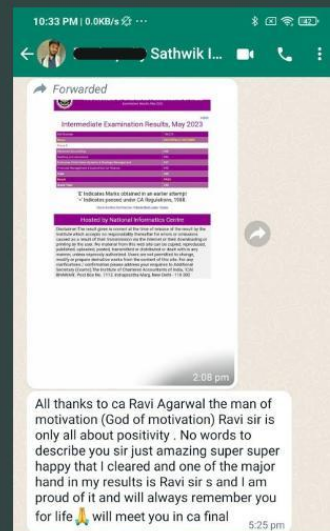
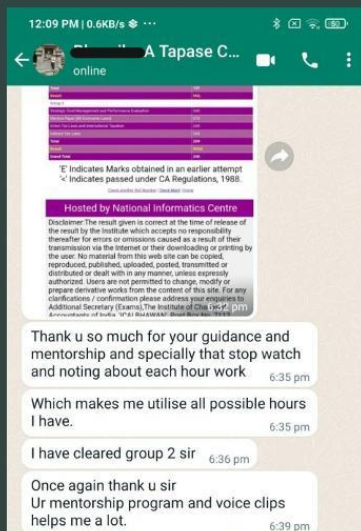
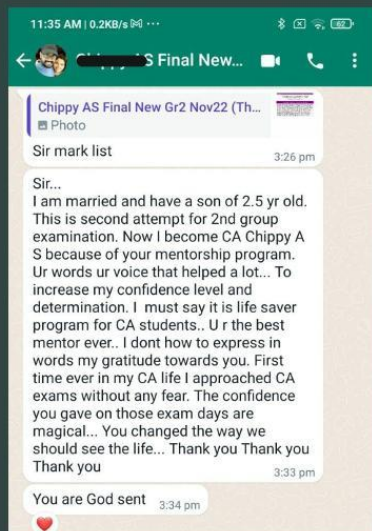
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Notes:

1. Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of Rs. 3,00,000 and Rs. 5,00,000 for persons over the age of 60 years and 80 years, respectively.
2. Since Mr. A is a resident whose total income does not exceed Rs. 5 lakhs, he is eligible for rebate of Rs. 12,500 or the actual tax payable, whichever is lower, under section 87A.

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Chapter 3.5

Income from other sources

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov'2 3
MCQ												
MTP			Q4, Q8	Q5			Q7	Q6				
RTP					Q2, Q9			Q1, Q3, Q10, Q11				
Q & A												
MTP		Q7, Q8			Q10				Q9	Q6		
PYP	Q14	Q15		Q2	Q13					Q1		
RTP		Q5	Q11		Q4							Q3, Q12

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Mr. Vikas received a gold ring worth ₹ 60,000 on the occasion of his daughter's wedding from his best friend Mr. Vishnu. Mr. Vishnu also gifted a gold chain to Kavya, daughter of Mr. Vikas, worth ₹ 80,000 on the said occasion. Would such gifts be taxable in the hands of Mr. Vikas and Ms. Kavya?
- Yes, the gift of gold ring and gold chain is taxable in the hands of Mr. Vikas and Ms. Kavya, respectively
 - Such gifts are not taxable in the hands of Mr. Vikas nor in the hands of Ms. Kavya
 - Value of gold ring is taxable in the hands of Mr. Vikas but value of gold chain is not taxable in the hands of Ms. Kavya
 - Value of gold chain is taxable in the hands of Ms. Kavya but value of gold ring is not taxable in the hands of Mr. Vikas (Nov '21)

Ans: The Answer is (c)

2. APM Ltd. is a pioneer company in textile industry. At the end of F.Y. 2018-19, it decided to distribute deposit certificates (without interest) to its shareholders (preference as well as equity shareholders). Total value of accumulated profits of APM Ltd. was ₹ 25 lakhs. Mr. A is an equity shareholder of APM Ltd. holding 10% of share capital. During F.Y. 2018 - 19, Mr. A received deposit certificates (without interest) valuing ₹ 5,00,000 from APM Ltd.

Comment upon taxability of receipt of deposit certificates in the hands of Mr. A.

- Deposit Receipts (without interest) are taxable to the extent of ₹ 2,50,000 under Income from other sources.
- Deposit Receipts (without interest) are fully taxable under Income from other sources.
- Deposit Receipts (without interest) are exempt since DDT is payable by the

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company.

- d) Deposit Receipts (without interest) are fully taxable and shall be included in Gross total income. But such receipt shall be allowed as deduction under Chapter-VI A. (RTP May '20)

Ans: The Answer is (c). *As per amendment the Answer will be (b)*

As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.

3. **Mr. T, an Indian Citizen and resident of India, earned dividend income of ₹ 4,500 from an Indian company, which was declared on 1.10.2020 and paid in cash to Mr. T. What are the tax implications with respect to the dividend in the hands of Mr. T and Indian Company?**
- Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @7.5%.
 - Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @10%.
 - Such dividend is taxable in the hands of Mr. T. However, Indian company is not required to deduct tax at source since it does not exceed ₹ 5,000.
 - Such dividend is exempt in the hands of Mr. T. Hence, Indian company is not required to deduct tax at source. (RTP Nov '21)

Ans: The Answer is (a)- *(Answer will be (b))*

As per amendment Due to covid from 14th May 2020 to 31st March 2021 the TDS rates for dividend was reduced to 7.5% from 10%. Post that the TDS rate IS back to 10%. Hence post 31st March the Answer would be (b).

4. **Mr. X receives the following gifts during the previous year 2018-19:**
- On 20.09.2018, he gets a gift of ₹7,00,000 from his grandmother.
 - On 30.12.2018, he gets by way of gift a commercial flat from the elder brother of his father-in-law (stamp duty value is ₹25,00,000).
 - On 20.01.2019, he gets a wrist watch by gift from his friend B (Fair market value: ₹1,00,000).
- On 10.02.2019, he gets by way of gift a plot of land in Pune from a partnership firm. The partnership firm has only two partners- father of Mr. X and Mr. X. The stamp duty value of the plot of land is ₹19,00,000. Compute the amount chargeable to tax in the hands of X under the head "Income from other sources" for the A.Y. 2019-20.**
- ₹25,00,000
 - ₹44,00,000
 - ₹45,00,000
 - ₹52,00,000 (MTP 1 Mark, March'19)

Ans: (b)

5. **Neeraj was working as an accountant with the company Umali Ltd. He died on 30.04.2018 and on account of his death, his wife Neha started receiving a pension of ₹ 10,000 per month i.e. 01.06.2018. Determine under which head of income, the pension received by Neha during F.Y. 2018-19 shall be taxable. Also, compute the taxable amount in her hands.**
- Income from other sources: ₹1,00,000

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- (b) Income from other sources: ₹ 85,000
- (c) Income from Salary: ₹1,00,000
- (d) Income from Salary: ₹ 85,000 **(MTP 1 Mark, Oct'19)**

Ans: (b)

6. Ms. Saline received interest on enhanced compensation of ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2018-19, ₹ 1,90,000 relates to previous year 2019-20 and ₹ 1,60,000 relates to previous year 2020-21. She paid ₹ 1 lakh to her advocate for his efforts in the matter. What amount would be taxable in P.Y. 2020-21 and taxable, if any, under which head of income.
- (a) ₹2,50,000 under the head "income from other sources"
 - (b) ₹ 4,00,000 under the head "income from other sources"
 - (c) ₹1,60,000 under the head "income from other sources"
 - (d) ₹1,60,000 under the head "Capital gains" Division B – **(MTP 2 Marks, Nov'21)**

Ans: (a)

7. Pankaj gifted an amount of Rs 3,00,000 to his wife, Pinky and ₹ 2,00,000 to his daughter, Rink aged 20 years, on 1st April 2017. Both Pinky and Rinky invested the amounts on the same date in Government of India 11% Taxable Bonds. The interest accrues yearly and is reinvested in the same bonds. Determine what will be the amount taxable in hands on Pinky for A.Y. 2021 -22?
- (a) ₹ 4,473
 - (b) ₹ 12,132
 - (c) ₹ 33,000
 - (d) Nil **(MTP 2 Marks, April'21)**

Ans (b)

8. Mrs. Gupta, resident in India, holds many equity shares of reputed domestic companies. During the previous year 2018-19, total dividend earned by her is ₹11,00,000. She is of the belief that dividend income earned by her is tax free. She approaches you to assist her in filing her income tax return. As her tax consultant, will you advise her that any dividend income earned by her is tax free?
- (i) Yes, as dividend earned by her is fully exempt from tax u/s 10(34).
 - (j) No, as any dividend income earned by an individual is fully chargeable to tax.
 - (k) No, as dividend income earned above ₹10,00,000 is chargeable to tax in her hands.
 - (l) Yes, as dividend income above ₹10,00,000 is chargeable to tax only in the hands of the companies and not in her hands. **(MTP 1 Mark, March'19)**

Ans: (e)

As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished. Hence the Answer is (b).

9. APM Ltd. is a pioneer company in textile industry. At the end of F.Y. 2018-19, it decided to distribute deposit certificates (without interest) to its shareholders (preference as well as equity shareholders). Total value of accumulated profits of APM Ltd. was ₹ 25 lakhs. Mr. A is an equity shareholder of APM Ltd. holding 10% of share capital. During F.Y. 2018 - 19, Mr. A received

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deposit certificates (without interest) valuing ₹ 5,00,000 from APM Ltd.

Comment upon taxability of receipt of deposit certificates in the hands of Mr. A.

- Deposit Receipts (without interest) are taxable to the extent of ₹ 2,50,000 under Income from other sources.
- Deposit Receipts (without interest) are fully taxable under Income from other sources.
- Deposit Receipts (without interest) are exempt since DDT is payable by the company.
- Deposit Receipts (without interest) are fully taxable and shall be included in Gross total income. But such receipt shall be allowed as deduction under Chapter-VI A. **(RTP May '20)**

Ans: The Answer is (c). **As per amendment the Answer will be (b)**

As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.

10. Mr. Vikas received a gold ring worth ₹ 60,000 on the occasion of his daughter's wedding from his best friend Mr. Vishnu. Mr. Vishnu also gifted a gold chain to Kavya, daughter of Mr. Vikas, worth ₹ 80,000 on the said occasion. Would such gifts be taxable in the hands of Mr. Vikas and Ms. Kavya?

- Yes, the gift of gold ring and gold chain is taxable in the hands of Mr. Vikas and Ms. Kavya, respectively
- Such gifts are not taxable in the hands of Mr. Vikas nor in the hands of Ms. Kavya
- Value of gold ring is taxable in the hands of Mr. Vikas but value of gold chain is not taxable in the hands of Ms. Kavya
- Value of gold chain is taxable in the hands of Ms. Kavya but value of gold ring is not taxable in the hands of Mr. Vikas **(RTP Nov '21)**

Ans: The Answer is (c)

11. Mr. T, an Indian Citizen and resident of India, earned dividend income of ₹ 4,500 from an Indian company, which was declared on 1.10.2020 and paid in cash to Mr. T. What are the tax implications with respect to the dividend in the hands of Mr. T and Indian Company?

- Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @7.5%.
- Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @10%.
- Such dividend is taxable in the hands of Mr. T. However, Indian company is not required to deduct tax at source since it does not exceed ₹ 5,000.
- Such dividend is exempt in the hands of Mr. T. Hence, Indian company is not required to deduct tax at source. **(RTP Nov '21)**

Ans: The Answer is (a)- (Answer will be (b))

As per amendment Due to covid from 14th May 2020 to 31st March 2021 the TDS rates for dividend was reduced to 7.5% from 10%. Post that the TDS rate IS back to 10%. Hence post 31st March the Answer would be (b).

Question & Answers

Question 1

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Examine whether the following are chargeable to tax and the amount liable to tax:

- (i) **Interest on enhanced compensation ₹ 3,00,000 received on 31.03.2022 from Government of Tamil Nadu towards urban land acquired by it. 40% of enhanced compensation interest pertains to previous year 2020-21. (Old & New SM)**
- (ii) **Narayanan transferred 1000 shares of BS Ltd to AB Pvt. Ltd on 01 -06-2021 for a consideration of ₹ 2,00,000 when the fair market value of the same as on transaction date was ₹ 3,00,000. The indexed cost of acquisition of shares for Narayanan was ₹ 2,75,000. The transfer was effected off market on which securities transaction tax was not paid. BS Ltd is a closely held unlisted company.**
- (iii) **Mr. A received ₹ 5,00,000 on 1st March 2022 from Sree Pushpaka Charitable Trust for meeting his medical expenses. The trust is registered under section 12AB of Income-tax Act. (PYP 6 Marks Nov '22)**

Answer 1

- (i) Interest on enhanced compensation received on 31.03.22 from Government of Tamil Nadu (including 40% of interest on enhanced compensation relating to P.Y. 2020 -21) would be deemed to be the income of P.Y. 2021-22, being the year in which it is received irrespective of the method of accounting followed by the assessee.
Interest of ₹ 3,00,000 on enhanced compensation is chargeable to tax during the P.Y. 2021-22 after providing deduction of 50% under section 57. Therefore, ₹ 1,50,000 is chargeable to tax under the head "Income from other sources".
- (ii) In the hands of Mr. Narayanan
Since the consideration of ₹ 2,00,000 is less than ₹ 3,00,000, being the fair market value of unquoted shares of BS Ltd., the fair market value of shares i.e., ₹ 3,00,000 would be deemed to be the full value of consideration.
Accordingly, ₹ 25,000 [₹ 3,00,000 – ₹ 2,75,000, being indexed cost of acquisition] would be liable to tax as long term capital gains in the hands of Mr. Narayanan.
In the hands of AB Pvt. Ltd.
Shares received by AB Pvt. Ltd. from Mr. Narayanan for inadequate consideration is chargeable to tax, since the difference exceeds ₹ 50,000. Accordingly, ₹ 1,00,000, being the difference between aggregate Fair Market Value of the shares i.e., ₹ 3,00,000 and consideration i.e., ₹ 2,00,000 would be chargeable to tax under the head "Income from other sources".
- (iii) The sum of ₹ 5,00,000 received from Sree Pushpaka Charitable Trust, without consideration, for meeting medical expenses would not be chargeable to tax in the hands of Mr. A, since the same is received from a trust registered under section 12AB.

Question 2

MLX Investments (P) Ltd. was incorporated during P.Y. 2016 -17 having a paid up capital of ` 10 lacs. In order to increase its capital, the company further issues, 1,00,000 shares (having face value of ` 100 each) during the year at par as on 01-08-2018. The FMV of such share as on 01-08-2018 was ` 85.

- (i) **Determine the tax implications of the above transaction in the hands of company, assuming it is the only transaction made during the year.**
- (ii) **Will your answer change, if shares were issued at ` 105 each?**
- (iii) **What will be your answer, if shares were issued at ` 105 and FMV of the share was ` 120 as on 01-08-2018? (PYP 4 Marks, Nov'19)**

Answer 2

The provisions of section 56(2) (vibe) would be attracted, where consideration is received from a resident person by a company, other than a company in which public are substantially interested, in excess of the face value of shares i.e., where shares

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are issued at a premium. In such a case, the difference between the consideration received and the fair market value would be chargeable to tax under the head "Income from Other Sources".

- (i) In this case, since MLX Investments (P) Ltd., a closely held company issued 1,00,000 shares (having face value of ₹ 100 each) at par i.e., ₹ 100 each, though issue price is greater than FMV, no amount would be chargeable to tax as income from other sources.
- (ii) In this case, since shares are issued at a premium, the amount by which the issue price of ₹ 105 each exceeds the FMV of ₹ 85 each would be chargeable to tax under the head "Income from other sources". Hence, ₹ 20 lakh, being ₹ 20 (i.e., ₹ 105 - ₹ 85) x 1,00,000 shares, would be chargeable under section 56(2) (vibe).
- (iii) If shares are issued at ₹ 105 each and FMV of share is ₹ 120 each, no amount would be chargeable to tax even though the shares were issued at a premium, since shares are issued at a price which is less than the fair market value.

Question 3

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

Mr. Shyam is a salaried individual. He purchased a painting and sculpture from his friends Mr. Kamal and Mr. Ashish for ₹ 45,000 and ₹ 35,000, respectively. The fair market value of painting and sculpture on the date of purchase was ₹ 80,000 and ₹ 60,000, respectively. Since the difference between fair market value and consideration of painting and sculpture does not exceed ₹ 50,000 individually, nothing would be taxable in the hands of Mr. Shyam. (RTP Nov '23)

Answer 3

The statement is incorrect.

In case movable property is received for inadequate consideration and the difference between aggregate fair market value of the property and such consideration exceeds ₹ 50,000, such difference would be taxed as the income of the recipient. Since the difference between aggregate fair market value of painting and sculpture (i.e., ₹ 1,40,000) and consideration (i.e., ₹ 80,000) exceeds ₹ 50,000, the difference of ₹ 60,000 would be taxable in the hands of Mr. Shyam under the head "Income from other sources".

Question 4

Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

- (i) Allowance of ₹ 18,000 p.m. received by an employee, Mr. Uttam Prakash, working in a transport system granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.
- (ii) During the previous year 2018-19, Mrs. Aadhya, a resident in India, received a sum of ₹ 9,63,000 as dividend from Indian companies and ₹ 4,34,000 as dividend from units of equity oriented mutual fund. (RTP May '20)

Answer 4

	Chargeability	Amount liable to tax (₹)	Reason
(i)	Partly taxable	96,000	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 any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 12,600 per month being, 70% of ₹ 18,000, in the present case) or ₹ 10,000 per month, whichever is less. Hence, ₹ 1,20,000 (i.e.,

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			₹ 10,000 x 12) is exempt. Balance ₹ 96,000 (₹ 2,16,000 – ₹ 1,20,000) is taxable in the hands of Mr. Uttam Prakash.
(ii)	Not Taxable (Taxable)	- 13,97,000	As per section 10(34), dividend received upto ₹ 10 lakhs from Indian companies on which dividend distribution tax is paid by the company, is exempt in the hands of shareholder. As per section 10(35), income received from units of mutual fund is exempt. Hence, ₹ 9,63,000, being the dividend from Indian companies and ₹ 4,34,000, being the dividend from units of equity oriented mutual fund is not taxable in the hands of Mrs. Aadhya. As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished. Income/dividend from UTI/Mutual Fund will also be taxable. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. Even TDS u/s 194 & 194K respectively for dividend from shares & mutual fund/UTI @10% if the aggregate income is over Rs. 5000 will be applicable.

Question 5

- (a) Mr. Pranav has 15% shareholding in TRP(P) Ltd. (engaged in trading business of toys) and has also 50% share in Pranav & Sons, a partnership firm. The accumulated profit of TRP(P) Ltd. is ₹ 30 lakh. Pranav & Sons had taken a loan of ₹ 35 lakh from TRP(P) Ltd. Examine whether the above loan can be treated as dividend as per the provisions of the Income-tax Act, 1961.
- (b) Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:
- MNS Private Limited, a closely held company, issued 12,000 shares at ₹ 125 per share. (The face value of the share is ₹ 80 per share and the fair market value of the share is ₹ 110 per share).
 - Mr. Arun received an advance of ₹ 56,000 on 11-09-2017 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹ 56,000 was forfeited.
 - Mr. Nitin, transferred a house property to his son Mr. Raj without consideration. The value of the house is ₹ 12 lacs as per the Registrar of stamp duty.
 - Mr. Tanmay gifted a refrigerator to his sister's daughter Tannu on her marriage. The fair market value of the refrigerator is ₹ 75,000. (RTP Nov '18)

Answer 5

Section 2(22)(e) provides that any payment by a company, not being a company in which public are substantially interested, of any sum by way of advance or loan

- to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of voting power, or
- to any concern in which such shareholder is a partner and in which he has a

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substantial interest (i.e., he is beneficially entitled to not less than 20% of the income of such concern) is deemed as dividend, to the extent the company possesses accumulated profits.

In the present case, the loan given by TRP(P) Ltd. to Pranav & Sons, a partnership firm would be deemed as dividend, since Mr. Pranav is the beneficial owner of 15% shareholding in TRP(P) Ltd. and also has substantial interest in Pranav & Sons (as he is beneficially entitled to 50% of the income of the firm).

However, the amount of loan would be deemed as dividend only to the extent TRP(P) Ltd. possesses accumulated profits. Therefore, out of the loan of ₹ 35 lakhs given to Pranav & Sons, only ₹ 30 lakhs, i.e., to the extent of accumulated profit of TRP(P) Ltd., would be deemed as dividend.

As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.

S. No.	Taxable / Not Taxable	Reason
(i)	Taxable	Since MNS Private Limited, a closely held company, issued 12,000 shares at a premium (i.e., issue price exceeds the face value of shares), the excess of the issue price of the shares over the fair market value would be taxable under section 56(2)(viib) in its hands under the head "Income from other sources". Therefore, ₹ 1,80,000 [12,000 × ₹ 15 (₹ 125 – ₹ 110)] shall be taxable as income in the hands of MNS Private Limited under the head "Income from other sources".
(ii)	Taxable	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head "Income from other sources", if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Section 56(2)(ix)]. Therefore, the amount of ₹ 56,000 received as advance would be chargeable to tax in the hands of Mr. Arun under the head "Income from other sources", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.
(iii)	Not Taxable	As per section 56(2)(x), immovable property received without consideration by any person from his relative is not taxable. In the present case, since Mr. Nitin is the father of Mr. Raj, ₹ 12 lakhs, being the stamp duty value of house property received, without consideration, would not be chargeable to tax in the hands of Mr. Raj.
(iv)	Not Taxable	Refrigerator is not included in the definition of "property", for the purpose of taxability under section 56(2)(x) in the hands of the recipient under the head "Income from other sources". Further, the same has been received by Tannu on occasion of her marriage from her maternal uncle, being a relative. Hence, ₹ 75,000, being the fair market value of refrigerator received without consideration from a relative on the occasion of a her marriage is not taxable in the hands of Tannu, even though its value exceeds ₹ 50,000.

Question 6 Examine the following transactions in the context of Income-tax Act, 1961:

(i) Mr. Koshi transferred 300 shares of Style Pvt Ltd. to Moksh Pvt. Ltd. on 10. 9.2021

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for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. Koshi was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. Koshi and Moksh Pvt. Ltd. because of the above said transaction. (MTP 2 Marks Oct'22)

- (ii) Mr. Chetan is employed in a company with taxable salary income of ₹ 4,00,000. He received a cash gift of ₹ 1,00,000 from Help Charitable Trust (registered under section 12AB) in March 2022 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chetan? (MTP 2 Marks Oct'22, MTP 1 Mark Nov'21)

Answer 6

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.
Thus, share received by Moksh Pvt. Ltd. from Mr Koshi for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.
As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of Style Pvt. Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of Style Pvt. Ltd are unquoted shares.
The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. Koshi.
- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of ₹ 1 lakh received from Help Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chetan.

Question 7

Examine the taxability or otherwise of the following independent transactions as per the provisions of section 56 of the Income-tax Act, 1961 for the Assessment year 2018-19.

- (i) Mrs. Meenakshi has received cash gifts aggregating of ₹ 2 lakhs from several friends and relatives on her birthday. Each cash gift ranges from ₹ 500 to ₹ 1,000.
- (ii) Mr. Krishna has received an immovable property, the stamp duty value of which is ₹ 10 lakhs as per a WILL executed by Mrs. Chandraben on her death.
- (iii) Mr. King has received an immovable property at Kilkanur Village from Mr. Prince as a gift. The stamp duty value of the property is ₹ 75,000
- (iv) Mrs. Vijay has gifted diamonds valued at ₹ 1 lakh to Mrs. Preethi, her sister's daughter-in-law on her birthday. (MTP 4 Marks, Aug'18)

Answer 7

S.N o.	Taxable	Reason
(i)	Taxable	As per Sec 56(2)(x), where any person receives, in any previous year from any person or persons, any sum the aggregate value of which exceeds ₹ 50,000, the whole of the aggregate value of such sum shall be included in the total income of such person under the head "Income from other sources". Though the gifts range from ₹ 500 to ₹ 1000, the aggregate value exceeds ₹ 50,000. Hence, ₹ 2 lakhs is taxable in her hands.
(ii)	Not taxable	Immovable property received by Mr. Krishna from the deceased M ^{rs} Chandraben as per a WILL is not taxable since any sum of money or any property received under a will is excluded under

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		section 56(2)(x).
(iii)	Taxable	Where any immovable property is received by any person without consideration the stamp duty value of which exceeds ₹ 50,000, the stamp duty value shall be included in the total income of such person under the head "Income from other sources". Therefore, ₹ 75,000 being the stamp duty value of the immovable property received as gift by Mr. King is taxable in his hands.
(iv)	Taxable	The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. However, sister's daughter in law is not a relative as per section 56(2)(x). Since, the fair market value of diamonds exceeds ₹ 50,000, the value of diamonds is taxable in the hands of sister's daughter in law.

Question 8

Mr. Akash, a property dealer, sold a building in the course of his business to his friend Varun, who is a share broker, for ₹85 lakhs on 12.12.2017, when the stamp duty value was ₹130 lakhs. The agreement was, however, entered into on 10.6.2017 when the stamp duty value was ₹120 lakhs. Mr. Akash had received a down payment of ₹15 lakhs by a crossed cheque from Varun on the date of agreement. Discuss the tax implications in the hands of Akash and Varun, assuming that Mr. Akash has purchased the building for ₹65 lakhs on 29th August, 2016. (MTP 6 Marks, Oct'18)

Answer 8

In the hands of Mr. Akash

The provisions of section 43CA would be attracted in the hands of Mr. Akash, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value on the date of agreement.

Therefore, ₹55 lakhs, being the difference between the stamp duty value on the date of agreement (i.e., ₹120 lakh) and the purchase price (i.e., ₹65 lakh), would be chargeable as business income in the hands of Mr. Akash.

In the hands of Mr. Varun

Since Mr. Varun is a share broker, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Varun who has received immovable property, being a capital asset, for inadequate consideration. Therefore, ₹45 lakhs, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹130 lakh) and the actual consideration (i.e., ₹85 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Varun, since the payment is made by crossed cheque and not account payee cheque/draft or ECS.

(As per amendment where any person receives, in any previous year, from any person or persons any immovable property having stamp duty value that exceeds such consideration and if the amount of such excess is more than the higher of the following amounts, namely:- (i) the amount of fifty thousand rupees; and (ii) the amount equal to ten per cent of the consideration then the difference between the consideration and stamp duty value is chargeable to tax)

Question 9

XYZ (P) Ltd. was incorporated during P.Y. 2019-20 having a paid up capital of ₹ 25 lakhs. In order to increase its capital, the company further issues 1,00,000 shares (having face value of ₹ 100 each) during the year at par as on 1.9.2021. The FMV of such shares as on 1.9.2021 was ₹ 75.

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- (i) Determine the tax implications of the above transaction in the hands of company, assuming it is the only transaction made during the year.
- (ii) Will your Answer change, if shares were issued at ₹ 110 each?
- (iii) What will be your answer, if shares were issued at ₹ 110 and FMV of the shares was ₹125 as on 1.9.2021? (MTP 4 Marks March 22)

Answer 9

The provisions of section 56(2)(viib) would be attracted, where consideration is received from a resident person by a company, other than a company in which public are substantially interested, in excess of the face value of shares i.e., where shares are issued at a premium. In such a case, the difference between the consideration received and the fair market value would be chargeable to tax under the head "Income from Other Sources".

- (i) In this case, since XYZ (P) Ltd., a closely held company issued 1,00,000 shares (having face value of ₹100 each) at par i.e., ₹ 100 each, though issue price is greater than FMV, no amount would be chargeable to tax as income from other sources.
- (ii) In this case, since shares are issued at a premium, the amount by which the issue price of ₹110 each exceeds the FMV of ₹ 75 each would be chargeable to tax under the head "Income from other sources". Hence, ₹35 lakh, being ₹35 (i.e., ₹110 - ₹75) x 1,00,000 shares, would be chargeable under section 56(2)(viib).
- (iii) If shares are issued at ₹115 each and FMV of share is ₹ 125 each, no amount would be chargeable to tax even though the shares were issued at a premium, since shares are issued at a price which is less than the fair market value.

Question 10

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

- (i) Received cash gifts on the occasion of her marriage on 19-11-2017 of ₹ 2,10,000. It includes gift of ₹ 55,000 received from non-relatives.
- (ii) On 1-1-2018, being her birthday, she received a gift of ₹ 45,000 by means of cheque from her father's maternal uncle.
- (iii) On 12-2-2018, she acquired a vacant site from her friend for ₹ 1,12,000. The State stamp valuation authority fixed the value of site at ₹ 1,92,000 for stamp duty purpose.
- (iv) She bought 50 equity shares of a private company from another friend for ₹ 75,000. The fair market value of such shares on the date of purchase was ₹ 1,33,000. (May '18)(MTP 3 Marks , Oct '20)

Answer 10

Computation of amount chargeable to tax in hands of Mrs. Sonu for A.Y. 2018-19

	Particulars	₹
(i)	Cash gift of ₹ 2,10,000 received on the occasion of her marriage is not taxable, since gifts received by an individual on the occasion of marriage is excluded from tax under section 56(2)(x), even if the same are from non-relatives.	Nil
(ii)	Even though father's maternal uncle does not fall within the definition of "relative" under section 56(2)(x), gift of ₹ 45,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Mrs. Sonu without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2017-18 does not exceed ₹ 50,000.	Nil

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(iii)	Purchase of vacant site for inadequate consideration on 12.2.2018 would attract the provisions of section 56(2)(x). Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000, the difference between the stamp duty value and consideration is chargeable to tax in the hands of Individual. (As per amendment where any person receives, in any previous year, from any person or persons any immovable property having stamp duty value that exceeds such consideration and if the amount of such excess is more than the higher of the following amounts, namely:- (i) the amount of fifty thousand rupees; and (ii) the amount equal to ten per cent of the consideration then the difference between the consideration and stamp duty value is chargeable to tax) Therefore, in the given case ₹ 80,000 (₹ 1,92,000 - ₹ 1,12,000) is taxable in the hands of Mrs. Sonu.	80,000
(iv)	Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares is ₹ 58,000 (₹ 1,33,000 - ₹ 75,000) i.e. it exceeds ₹ 50,000, the difference would be taxable under section 56(2)(x).	58,000
Amount chargeable to tax		1,38,000 0

Question 11

Mr. Suraj sold a house to his friend Mr. Ganesh on 18th September, 2018 for a consideration of ₹ 42,00,000. On the date of registration stamp duty value of the said property is ₹ 45,00,000. However, on the date of agreement stamp duty value of the said property was ₹ 44,00,000. Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of the total value of the property.

What are the tax implications in the hands of Mr. Suraj and Mr. Ganesh for the assessment year 2019-20? Mr. Suraj had purchased the land on 19th February, 2013 for ₹ 9,20,000 and completed the construction of house on 18th January, 2017 for ₹ 15,50,000. Cost Inflation Index: F.Y. 2012-13 - 200; F.Y. 2016-17 - 264; F.Y. 2018-19 - 280.(RTP May '19)

Answer 11

In the hands of the seller, Mr. Suraj

As per section 50C, where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer.

However, where the date of registration and date of agreement are not the same and part or whole of the consideration is received by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken to be the full value of consideration.

Further, where the stamp duty value on the date of agreement or registration, as the case may be, does not exceed 105% (**110%**) of the amount of consideration received or receivable then the consideration so received would be deemed to be the full value of the consideration.

In the present case, since Mr. Suraj has received 10% of the consideration by way of A/c payee cheque on the date of agreement, the stamp duty value of ₹ 44,00,000 on the date of agreement would be taken for the purpose of computing full value of consideration.

Further, since the stamp duty of land and building of ₹ 44,00,000 does not exceed ₹

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₹ 44,10,000 (**₹ 46,20,000**) i.e., 105% (**110%**) of ₹ 42,00,000, the consideration received i.e., ₹ 42,00,000 in respect of land and building would be deemed to be the full value of consideration.

In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

Accordingly, capital gains would be determined in the following manner:

Particulars	₹
Long term capital gain on sale of land	
Consideration received or accruing as a result of transfer of land [70% of ₹ 42,00,000]	29,40,000
Less: Indexed cost of acquisition ₹ 9,20,000 x 280/200	12,88,000
Long-term capital gain (A)	16,52,000
Short-term capital loss on sale of building	
Consideration received or accruing from transfer of building [30% of ₹ 42,00,000]	12,60,000
Less: Cost of acquisition	15,50,000
Short term capital loss (B)	(2,90,000)

As per section 70(2), short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹ 13,62,000 (i.e., ₹ 16,52,000 – ₹ 2,90,000). The same would be taxable @ 20% under section 112, after adjusting un-exhausted basic exemption limit, if any, against such long term capital gain.

In the hands of the buyer Mr. Ganesh

As per section 56(2)(x), where any person receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value on the date of agreement or date of registration as the case may be, and the difference between actual consideration and stamp duty value so considered is more than the higher of ₹ 50,000 or 5% (**10% as per amendment**) of the consideration so received, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources.

Where the date of registration and date of agreement are not the same and part or whole of the consideration is paid by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken for the purpose of determining income taxable under the head "Income from other sources".

Since in the present case, Mr. Ganesh has paid 10% of the consideration by way of A/c payee cheque, the stamp duty value on the date of agreement has to be taken. Further, since the difference of ₹ 2,00,000 is not more than ₹ 2,10,000 being higher of ₹ 50,000 and ₹ 2,10,000 (**₹ 4,20,000**) (5% (**10%**) of ₹ 42,00,000), no income would be chargeable to tax as income from other sources in the hands of Mr. Ganesh.

(As per amendment where any person receives, in any previous year, from any person or persons any immovable property having stamp duty value that exceeds such consideration and if the amount of such excess is more than the higher of the following amounts, namely:- (i) the amount of fifty thousand rupees; and (ii) the amount equal to ten per cent of the consideration then the difference between the consideration and stamp duty value is chargeable to tax)

Question 12

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Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

Akash, aged 17 years, received ₹ 3,50,000 as educational scholarship from M/s ABC Ltd. As a part of public welfare program, ABC Ltd. gave the above scholarship for his exceptional performance in Higher Secondary Examinations and to meet the cost of his further studies. The scholarship so received by Akash is taxable in his hands under the head "Income from other sources". (RTP Nov '23)

Answer 12

The statement is incorrect.

Income of Akash, being a minor child, from his skill or talent would be taxable in his hands. However, as per section 10(16), the value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.

Question 13

Ms. Julie received following amounts during the previous year 2019-20.

- (5) Received loan of ₹ 5,00,000 from the ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of the equity share capital in the said company. The accumulated profit of the company was ₹ 2,00,000 on the date of the loan.**
- (6) Received Interest on enhanced compensation of ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2016-17, ₹ 1,90,000 relates to previous year 2017-18 and ₹ 1,60,000 relates to previous year 2018-19. She paid ₹ 1 lakh to her advocate for his efforts in the matter. Discuss the tax implications, if any, arising from these transactions in her hand with reference to Assessment Year 2020-21. (PYP 4 Marks, Nov'20)**

Answer 13

- (1) Any payment by way of loan by a closely held company to its shareholder holding not less than 10% of voting power is deemed as dividend, to the extent of accumulated profits of the company. Accordingly, out of ₹ 5 lakhs given by ABC Pvt. Ltd. to Ms. Julie, loan to the extent of ₹ 2 lakhs would be treated as deemed dividend for the A.Y.2020-21. Such dividend would, however, be taxable @30% in the hands of ABC Ltd. Consequently, it would be fully exempt in Julie's hands under section 10(34).

As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.

- (2) Interest on enhanced compensation is chargeable to tax under the head "Income from other sources" in the year of receipt, after providing for deduction of 50% of such income. Accordingly, ₹ 2,50,000 [₹ 5,00,000 - ₹ 2,50,000, being 50% of ₹ 5 lakh] would be chargeable to tax in the hands of Ms. Julie under the head "Income from Other Sources" for the A.Y.2020-21.

Question 14

Discuss the taxability of the following receipts in the hands of Mr. Sanjay Kamboj under the Income-tax Act, 1961 for A.Y. 2018-19:

- (i) ₹ 51,000 received from his sister living in US on 1-6-2017.**
- (ii) Received a car from his friend on payment of ₹ 2,50,000, the FMV of which was ₹ 5,50,000. Provisions of taxability or non-taxability must be discussed. (PYP 3 Marks, May'18)**

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Answer 14

I. Not taxable

Cash gift of ₹ 51,000 received from his sister, being a relative, would not be taxable in the hands of Mr. Sanjay Kamboj under section 56(2)(x), even though the amount exceeds ₹ 50,000.

II. Not Taxable

Car is not included in the definition of "property", for the purpose of taxability of gifts in kind, in the hands of the recipient under the head "Income from other sources".

Hence, ₹ 5,50,000, being the fair market value of car received for inadequate consideration from his friend is not taxable under section 56(2)(x) in the hands of Mr. Sanjay Kamboj, even though the difference between the purchase price and FMV exceeds ₹ 50,000 and the gift is received from a non-relative.

Question 15

Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

- (iii) Allowance of ₹ 18,000 p.m. received by an employee, Mr. Uttam Prakash, working in a transport system granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.
- (iv) During the previous year 2018-19, Mrs. Aadhya, a resident in India, received a sum of ₹ 9,63,000 as dividend from Indian companies and ₹ 4,34,000 as dividend from units of equity oriented mutual fund. (PYP 2 Marks Nov 18)

Answer 15

	Chargeability	Amount liable to tax (₹)	Reason
(i)	Partly taxable	96,000	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 any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 12,600 per month being, 70% of ₹ 18,000, in the present case) or ₹ 10,000 per month, whichever is less. Hence, ₹ 1,20,000 (i.e., ₹ 10,000 x 12) is exempt. Balance ₹ 96,000 (₹ 2,16,000 – ₹ 1,20,000) is taxable in the hands of Mr. Uttam Prakash.
(ii)	Not Taxable (Taxable)	- 13,97,000	As per section 10(34), dividend received upto ₹ 10 lakhs from Indian companies on which dividend distribution tax is paid by the company, is exempt in the hands of shareholder. As per section 10(35), income received from units of mutual fund is exempt. Hence, ₹ 9,63,000, being the dividend from Indian companies and ₹ 4,34,000, being the dividend from units of equity oriented mutual fund is not taxable in the hands of Mrs. Aadhya. As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other

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Paper 3 - Taxation

		<p><i>person. DDT has been abolished.</i></p> <p><i>Income/dividend from UTI/Mutual Fund will also be taxable. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income.</i></p> <p><i>Even TDS u/s 194 & 194K respectively for dividend from shares & mutual fund/UTI @10% if the aggregate income is over Rs. 5000 will be applicable.</i></p>
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Section - B

Question 1

Examine under which heads the following incomes are taxable:

- (i) Rental income in case property held as stock-in-trade for 3 years
- (ii) Dividend on shares in case of a dealer in shares
- (iii) Salary received by a partner from his partnership firm
- (iv) Rental income of machinery
- (v) Winnings from lotteries by a person having the same as business activity
- (vi) Salaries payable to a Member of Parliament
- (vii) Receipts without consideration
- (viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.
- (ix) Rental income in case of a person engaged in the business of letting out of properties.

Answer 1

	Particulars	Head of Income
(I)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Dividend on shares in case of a dealer in shares	Income from other sources
(iii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iv)	Rental income of machinery (See Note below)	Profits and gains of business or profession/Income from other sources
(v)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi)	Salaries payable to a Member of Parliament	Income from other sources
(vii)	Receipts without consideration	Income from other sources
(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(xi)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

Question 2

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Examine whether the following are chargeable to tax and the amount liable to tax :

- (i) A sum of Rs. 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
- (ii) Interest on enhanced compensation of Rs. 96,000 received on 12-3-2022 for acquisition of urban land, of which 40% relates to P.Y.2022-23.

Answer 2

S. No.	Taxable/ Not Taxable	Answer Amount liable to tax (₹)	Reason
(I)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B (1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of Rs. 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2022-23 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, Rs. 48,000 is chargeable to tax under the head "Income from other sources".

Question 3

On 10.10.2023, Mr. Gavin (a bank employee) received Rs. 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2014-15. Out of this interest, Rs. 1,50,000 relates to the financial year 2015-16; Rs. 1,65,000 to the financial year 2016-17; and Rs. 1,85,000 to the financial year 2017-18. He incurred Rs. 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2024-25?

Answer 3

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates. Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'. 50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

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Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income. Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2024-25:

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x Rs. 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

Question 4

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2024:

- (i) Cash gift of Rs. 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (ii) On the above occasion, a diamond necklace worth Rs. 2 lacs were presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21.2.2024, her friend assigned in Mrs. Healy's favor, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was Rs. 52,000.

Compute the income, if any, assessable as income from other sources.

Answer 4

- (i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age. The gift of Rs. 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds Rs. 50,000.
- (ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jeweler falls within the definition of "property".
- (iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case. Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds Rs. 50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x). Therefore, there are two possible views in respect of the value of fixed deposit assigned in favor of Mrs. Hemali –
 - (1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".
 - (2) However, another possible view is that fixed deposit assigned in favor of Mrs. Hemali falls within the meaning of "sum of money" received. Income assessable as "Income from other sources" "If the first view is taken, the total amount chargeable to tax as "Income from other sources" would be Rs. 51,000, being cash gift received from a friend on her Shastiaptha Poorthi. As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be Rs. 1,03,000 (51,000 + Rs. 52,000).

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Question 5

Examine the following transactions in the context of Income-tax Act, 1961:

- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2021 for Rs. 3,00,000 when the market price was Rs. 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at Rs. 4,45,000. The transfer was not subjected to securities transaction tax. Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co.(P) Ltd. because of the above said transaction.
- (ii) Mr. Cherian is employed in a company with taxable salary income of Rs. 5,00,000. He received a cash gift of Rs. 1,00,000 from Atma Charitable Trust (registered under section 12AB) in December 2021 for meeting his medical expenses. Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Cherian?

Answer 5

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds Rs. 50,000. Thus, share received by M/s B. Co. (P) Ltd. from Mr. B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of Rs. 2,00,000. As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares. The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of Rs. 55,000 in the hands of Mr. B.
- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of Rs. 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Cherian.

Question 6: illustration

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of Rs. 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of Rs. 4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?
- (ii) What would be your Answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)?

Answer 6

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22) (e), to the extent the company possesses accumulated profits.

- (i) The provisions of section 2(22) (e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a
- (iii) manufacturing company and not a company where lending of money is a

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substantial part of the business of the company, then, the provisions of section 2(22) (e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

- (iv) The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., Rs. 4,00,000 and not the amount of loan which is Rs. 5,00,000.

Question 7: illustration

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2023-24 from his friend Mr. B, -

- (1) **Cash gift of Rs. 75,000 on his anniversary, 15th April, 2023.**
- (2) **Bullion, the fair market value of which was Rs.60,000, on his birthday, 19th June, 2023.**
- (3) **A plot of land at Faridabad on 1st July, 2023, the stamp value of which is Rs. 5 lakh on that date. Mr. B had purchased the land in April, 2009.**

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ Rs. 400 each on 19th June, 2023, the fair market value of which was Rs. 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2023.

Further, on 1st November, 2023, Mr. A took possession of property (office building) booked by him two years back at Rs. 20 lakh. The stamp duty value of the property as on 1st November, 2023 was Rs. 32 lakh and on the date of booking was Rs. 23 lakh. He had paid Rs. 1 lakh by account payee cheque as down payment on the date of booking. On 1st March, 2024, he sold the plot of land at Faridabad for Rs.7 lakh. Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2024-25.

Answer 7

Computation of "Income from other sources" of Mr. A for the A.Y. 2024-25

	Particulars	Rs.
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds Rs.50,000	75,000
(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds Rs. 50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4)	Difference of Rs. 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
(5)	Difference between the stamp duty value of Rs. 23 lakh on the date of booking and the actual consideration of Rs.	

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	20 lakh paid is taxable under section 56(2)(x) since the difference exceeds Rs. 2,00,000, being the higher of Rs. 50,000 and 10% of consideration	
		3,00,000
	Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. A for the A.Y.2024-25

Particulars	Rs.
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

Question 8: illustration

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- (i) Akhil HUF received Rs. 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- (ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is Rs. 9,00,000.
- (iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was Rs. 100 per share. He also received jewellery worth Rs. 45,000 (FMV) from his nephew on the same day.
- (iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is Rs. 5,25,000.

Answer 8

	Taxable/ Non-taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding Rs.50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds Rs. 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds Rs.50,000. Hence, the entire amount of Rs. 55,000 shall be taxable.

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(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.
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Question 9: illustration

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Rajesh, who is a dealer in automobile spare parts, for Rs. 90 lakh on 1.1.2024, when the stamp duty value was Rs. 150 lakh. The agreement was, however, entered into on 1.9.2023 when the stamp duty value was Rs. 140 lakh. Mr. Hari had received a down payment of Rs. 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for Rs. 75 lakh on 12th July, 2022. Would your Answer be different if Hari was a share broker instead of a property dealer?

Answer 9

Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
<p>In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.</p> <p>Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of Rs. 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, Rs. 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., Rs. 150 lakh, and the purchase price i.e., Rs. 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration</p>	<p>Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds Rs. 9,00,000, being the higher of Rs. 50,000 and 10% of consideration. Therefore, Rs. 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs. 150 lakh) and the actual consideration (i.e., Rs. 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</p>

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
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In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, **Rs. 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., Rs. 150 lakh) and the purchase price (i.e., Rs. 75 lakh) would be chargeable as short-term capital gains.** It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of Rs. 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker, (except where the property transferred in a residential unit fulfilling the stipulated conditions, which is not so in this case). Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds Rs. 9,00,000, being the higher of Rs. 50,000 and 10% of consideration. Therefore, **Rs. 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs. 150 lakh) and the actual consideration (i.e., Rs. 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.**

Question 10: illustration

Interest on enhanced compensation received by Mr. G during the previous year 2021-22 is Rs. 5,00,000. Out of this interest, Rs. 1,50,000 relates to the previous year 2019-20, Rs. 1,65,000 relates to previous year 2020-21 and Rs. 1,85,000 relates to previous year 2021-22. Discuss the tax implication, if any, of such interest income for A.Y. 2024-25.

Answer 10

The entire interest of Rs. 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2023-24.

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000
Interest chargeable under the head "Income from other sources"	2,50,000

Question 11: illustration (NEW SM)

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

Answer 11

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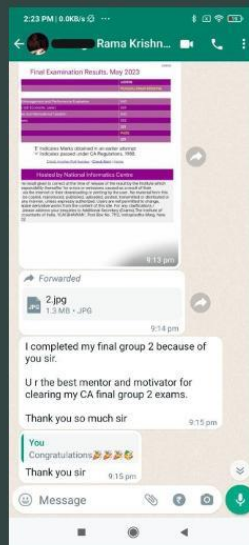
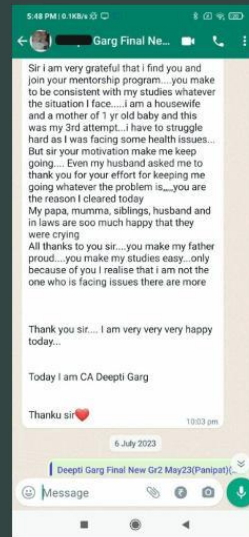
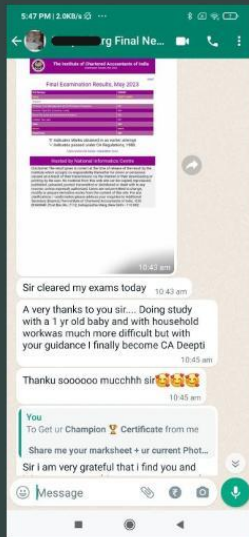
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The statement is **not** correct. As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

Paper 3 - Taxation

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Paper 3 - Taxation

Chapter 4

INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

Attempt wise Distribution

Attempts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov '23
MCQ												
MTP								Q3	Q4	Q2	Q5	
RTP			Q1									
Q & A												
MTP		Q13	Q9	Q7	Q12			Q11		Q6	Q8, Q14	Q5, Q16
PYP	Q2	Q4			Q17			Q3		Q18	Q1	
RTP		Q19							Q15		Q10	

Section – A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Ram owns 500, 15% debentures of Reliance Industries Ltd. of ₹ 500 each. Annual interest of ₹ 37,500 was declared on these debentures for P.Y. 2018-19. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for A.Y. 2019-20, Shyam showed ₹ 37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income?
- (m) Yes, since interest income was transferred to Shyam therefore, after transfer it becomes his income.
- (n) No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam.
- (o) Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending upon their discretion.
- (p) No, since Shyam should have shown the income as interest income received from Mr. Ram and not as interest income earned on debentures. **(RTP May '19)**

Ans: The Answer is (b)

2. Pankaj gifted an amount of ₹ 3,00,000 to his wife, Nikki and ₹ 2,00,000 to his daughter, Pinki aged 20 years, on 1st April 2018. Both Nikki and Pinki invested the amounts on the same date in Government of India 11% Taxable Bonds. The interest accrues yearly and is reinvested in the same bonds. Determine what will be the amount taxable in hands on Nikki for A.Y. 2022-23?
- (a) ₹ 4,473
- (b) ₹ 12,132
- (c) ₹ 33,000
- (d) Nil **(MTP 2 Marks Sep'22)**

Ans: (b)

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3. Mr. Vishal started a proprietary business on 01.04.2019 with a capital of ₹5,00,000. He incurred a loss of ₹ ₹ 1,00,000 during the year 2019-20. To overcome the financial position, his wife M^{rs} Kamini, a Chartered Accountant, gave a gift of ₹ 4,00,000 on 01.04.2020, which was immediately invested in the business by Mr. Vishal. He earned a profit of ₹ 2,00,000 during the year 2020-21. What is the amount to be clubbed in the hands of M^{rs} Kamini for the Assessment Year 2021 -22?
- ₹ 88,888
 - ₹ 1,00,000
 - ₹ 2,00,000
 - Nil (MTP 1 Mark, Oct'21)

Ans: (b)

4. Mr. Raj Makes a gift of ₹ 25,000 to his wife, M^{rs} Rama, on 27.03.2021. M^{rs} Rama, on 2.4.2021, invests ₹ 75,000 (25,000 out of gift and 50,000 of her own) in a partnership firm as capital which is her total capital contribution in the firm. During the year ended 31.03.2022 she earns an interest of ₹ 12,000 and salary of ₹ 1,20,000 from the firm. What amount shall form part of total income of Mr. Raj for the previous year 2021-22?
- ₹ 3,000 as interest on capital from firm
 - ₹ 3,000 as interest on capital from firm and ₹40,000 as salary from firm
 - ₹ 4,000 as interest on capital from firm and ₹40,000 as salary from firm
 - Nil (MTP 2 Marks April 22)

Ans : (d)

5. Mrs. Archana, wife of Mr. Raj, started a business of trading in beauty products on 15.5.2022. She invested ₹ 5 lakhs in the business on 15.5.2022 out of gift received from her husband, Mr. Raj. She further invested ₹ 4 lakhs from her own savings on 15.12.2022. She earned profits of ₹ 1,50,000 from her business for the financial year 2022-23. Which of the following statements is correct?
- Share of profit of ₹ 1,50,000 is includible in the hands of Mrs. Archana.
 - Share of profit of ₹ 66,667 is includible in the hands of Mr. Raj and share of profit of ₹ 83,333 is includible in the hands of Mrs. Archana.
 - Share of profit of ₹ 83,333 is includible in the hands of Mr. Raj and share of profit of ₹ 66,667 is includible in the hands of Mrs. Archana.
 - Share of profit of ₹ 1,50,000 is includible in the hands of Mr. Raj. (MTP 2 Marks March '23)

Ans: (d)

Question & Answers

Question 1

Mr. Chaman who is 50 years old and his wife Mrs. Chaman who in 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- Mr. Chaman's salary income - ₹ 11,00,000

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- (ii) Mrs. Chaman's income from Kathak performances - ₹ 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- (iii) Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- (iv) Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2023, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000.
- (v) Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2022-23. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2022-23.
- (vi) Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2023-24. Ignore section 115BAC pertaining to alternative tax regime. (PYP 6 Marks May '23)

Answer 1

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2023-24

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
Income under the head "Salaries" Salaries (computed)	11,00,000			
Profits and gains from business or profession Income from Kathak performances		2,50,000		
Capital Gains Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of ₹ 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of ₹ 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] [Refer Note 1 and 2 below]		2,00,000		
The balance short-term capital loss of ₹ 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.				

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Income [before considering income of minor son and minor daughter]		3,50,000		
	11,00,000	6,00,000		
Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since			3,56,000	
such income arises from her own skills/talent. However, interest of ₹ 15,000 on saving bank account [after providing for deduction of ₹ 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [₹ 15,000 - ₹ 1,500] ⁵	13,500			
Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000
Gross Total Income	11,13,500	6,00,000	3,56,000	35,000
Less: Deductions under Chapter VI-A				
- Under section 80TTA In respect of interest on saving bank account to the extent of	10,000			
- Under section 80U Flat deduction of ₹ 75,000 to a person with disability. However, deduction would be restricted to gross total income				35,000
Total Income	11,03,500	6,00,000	3,56,000	Nil

Note – (1) The question mentions that Mrs. Chaman gifted ₹ 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2023 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000. It is not possible to invest ₹ 2 lakhs and incur short-term capital loss of ₹ 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining ₹ 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words “invested the entire amount in the stock market” in the question, it is possible to take a view that the entire capital loss of ₹ 5,10,000 has to be set off against long-term capital gains of ₹ 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be ₹ 2,90,000 instead of ₹ 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.

Since the relevant assessment year for May 2023 examination is A.Y. 2023-24, accordingly, the relevant previous year is P.Y. 2022-23. The above solution has been worked out considering the date of gift as 1.4.2022.

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(2) Item (iv) mentions that the gift was made by Mrs. Chaman to Mr. Chaman on 1.4.2023, which falls outside the P.Y. 2022-23. Since the date of gift has been mentioned as 1.4.2023 in the question, as per the plain reading, such short-term capital loss cannot be set-off against long-term capital gains of ₹ 5,50,000. In such a case, the total income of Mr. Chaman would be ₹ 8,00,000.

⁵ Assumed that this is the first year of clubbing

Question 2

Mr. Madhab made a gift of ₹ 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2016, which he deposited in a fixed deposit account in a Nationalized bank at 10% interest p.a. 'compounded' annually. The balance in this account as on 1st April, 2017 was ₹ 2,75,000 and the bank credited a sum of ₹ 27,500 as interest on 31st March, 2018. Madhav's father gifted equity shares worth ₹ 50,000 of an Indian company to Master Manan, another son of Mr. Madhab (Date of birth 10th April, 2010) in July 2010 which were purchased by him on 8th December, 2004 for ₹ 80,000. Manan received a dividend of ₹ 5,000 on these shares in October 2017. He sold these shares on 1st November, 2017 for ₹ 5,00,000 and deposited ₹ 3,00,000 in a company at 15% interest per annum.

Cost Inflation Index

Financial Year	Cost Inflation Index
2004-05	113
2010-11	167
2017-18	272

Mr. Madhab has a taxable income of ₹ 3,50,000 from his profession during the financial year 2017-18. Compute his Gross Total Income for the A.Y. 2018-19. (PYP 5 Marks, May'18)

Answer 2

Computation of Gross Total Income of Mr. Madhab for the A.Y. 2018-19

Particulars	₹	₹	₹
Income from profession			3,50,000
Income of minor son Manan			
Capital gains			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition [$\frac{80,000 \times 272}{167}$]	1,30,299	3,69,701	
Income from Other Sources			
Dividend of ₹ 80,000 on equity shares [Exempt u/s 10(34)] (taxable in the hands of shareholder as per amendment)	80,000		
Interest on company deposit [$\frac{3,00,000 \times 15\% \times 5}{12}$]	18,750	98,750	

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Less: Exemption u/s 10(32) in respect of income of minor child	4,68,451	4,66,951
	1,500	
Gross Total Income		8,16,951

Notes:

- (1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 27,500 arising to handicapped son, Master Tapan, would not be clubbed with the income of Mr. Madhav
- (2) Income of the other minor child, Master Manan, is includible in the hands of Mr. Madhav, assuming that Mr. Madhav's income is higher than that of his wife.
- (3) In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Manan held the asset, i.e., F.Y.2010-11, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. The solution based on alternate view is given as under:

Computation of gross total income of Mr. Madhav for the A.Y. 2018 -19

Particulars			
Income from profession			3,50,000
Income of minor son Manan			
Capital gains			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition [₹ 80,000 x 272/113]	1,92,566	3,07,434	
Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)] (taxable in the hands of shareholder as per amendment)	80,000		
Interest on company deposit [₹ 3,00,000 x 15% x 5/12]	18,750	₹ 98,750	
		4,06,184	
Less: Exemption u/s 10(32) in respect of income of minor child		₹ 1,500	

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		4,04,684
Gross Total Income		7,54,684

Question 3

Details of Income of Mr. R and his wife Mrs. R for the previous year 2020-21 are as under:

- (i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2020-21 the HUF earned an income of ` 50,000 from such property.
- (ii) Mr. R transferred ` 4,00,000 to his wife Mrs. R on 01.04.2006 without any consideration which was given as a loan by her to Mr. Girish. She earned ` 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2020-21, she earned interest @ 11% per annum.
- (iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2020-21 they have withdrawn a salary of ` 3,20,000 and 2,70,000 respectively.
- (iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2013 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2016. On 04.03.2021, Mr. R sold entire share holdings and earned ` 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission ` 4,00,000 and Mrs. R has interest income of ` 3,30,000. Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2021 -22. (PYP 4 Marks Dec '21)

Answer 3

Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2021-22

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
I.	Income from house property Income from property transferred to HUF without consideration Since Mr. R has transferred his property to his HUF without consideration, income of ` 50,000 from such property would be included in the total income of Mr. R as per section 64(2).	50,000	
II.	Capital Gains Income from equity shares transferred by Mrs. R to Mr. R without consideration		
	Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [$\frac{5,20,000 \times 5,000}{8,000}$]		3,25,000

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	Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [$\frac{5,20,000 \times 3,000}{8,000}$]	1,95,000	
III.	Income from Other Sources		
	Income from commission	4,00,000	
	Interest income		3,30,000
	Interest income on ` 4 lakh transferred by Mr. R to Mrs. R without consideration		
	Income of ` 44,000, i.e., 11% of ` 4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R	44,000	
	Income of ` 38,500 i.e., 11% of ` 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R.		38,500
	Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]	6,89,000	6,93,500
IV	Salary income from a company in which both Mr. R and Mrs. R have substantial interest		
	Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher. Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R.		
	Salary income of Mr. R = ` 3,20,000 – ` 50,000 (standard deduction)		2,70,000
	Salary income of Mrs. R = ` 2,70,000 – ` 50,000 (standard deduction)		2,20,000
	Gross Total Income	6,89,000	11,83,500

6 Assumed as computed figure

7 In the absence of any other information, the capital gains has been apportioned on the basis of number of original shares to number of bonus shares.

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Question 4

Mrs. and Mr. Vinod Amin have two minor children M and N. The following are the receipts in the hands of M and N during the year ended 31-3-2018:

- (i) **M received a gift of ₹ 70,000 from her friend's father on the occasion of her birthday.**
- (ii) **M won a prize money of ₹ 3,00,000 in National Quiz competition. This was invested in debentures of a company, from which interest of ₹ 19,000 (gross) accrued during the year.**
- (iii) **N won prize in a lottery. The net amount received after deduction of tax at source was ₹ 1,05,000.**

Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under the provisions of the Income-tax Act, 1961. Detailed computation of income is not required. (PYP 5 Marks, Nov'18)

Answer 4

Gift received from non-relative by minor daughter M Gift of ₹ 70,000 received by minor daughter M, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Vinod Amin, since his income before considering clubbing provisions is higher than that of his wife. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y.2026-27, in this case.

- (i) Prize money of ₹ 3,00,000 in National Quiz Competition/Interest on debentures received by minor daughter M Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Quiz Competition by minor daughter M from exercise of special talent would not be included in the income of either parent.

However, interest of ₹ 19,000 on debentures has to be included in the hands of her father, Mr. Vinod Amin, even if the investment is made out of income arising from application of special talent.

Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor daughter M so included in the hands of Mr. Vinod Amin under section 10(32).

- (ii) Winning from lottery by minor child N Winnings of ₹ 1,50,000 ($1,05,000 \times 100/70$) from lotteries by minor child N is includible in the hands of his father, Mr. Vinod Amin. Mr. Vinod Amin can claim credit of tax of ₹ 45,000 deducted at source from such lottery income.

Note – As regards availability of exemption under section 10(32) in respect of lottery income of minor child N includible in the hands of his father, there are two possible views. Since exemption of up to ₹ 1,500 under section 10(32) is available in respect of any income of minor child includible in the total income of parent, one view is that such exemption would also be available in respect of lottery income of a minor child includible in the hands of parent.

The alternate view is that since as per section 58(4), no deduction is allowable in respect of any expenditure or allowance in connection with lottery income under any provision of the Income-tax Act, 1961, exemption under section 10(32) would also not be available in respect of such income of minor child includible in the hands of the parent. Further, lottery income is subject to tax at a flat rate of 30%, and hence, if any exemption is allowed in respect of such income, it would reduce

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the tax liability and the effective rate of tax.

Question 5

Mr. Manoj, a bhajan singer of Rajasthan and his wife Mrs. Daya furnish the following information relating to the A.Y. 2023-24.

1	Income of Mr. Manoj - Professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Daya (Computed)	3,80,000
3	Loan received by Mrs. Daya from Ramu & Jay (P) Ltd. (Mrs. Daya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000
4	Income of their minor son Ganesh from winning singing reality show on T.V.	2,50,000
5	Cash gift received by Ganesh from friend of Mr. Manoj on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Manoj & Mrs. Daya for the A.Y. 2023-24 if they opt for the provisions of section 115BAC. (MTP 5 Marks Sep '23, PYP 5 Marks Nov'19)

Answer 5

Computation of Taxable income of Mr. Manoj for A.Y. 2023-24

Particulars	
Professional income (bhajan singer)	5,65,000
Income of minor son – Ganesh	
- Income from winning singing reality show on T.V. Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹ 2,50,000 earned by minor son Ganesh from reality show on TV would not be included in the income of either parent.	Nil
- Cash gift received by Ganesh from friend of Mr. Manoj on winning the show The cash gift received by his minor son Ganesh (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.	Nil
Income of minor married daughter – Gudia	
Interest income on deposit with Ramu & Jay Pvt. Ltd.	40,000

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Less: Exempt under section 10(32) [Since Mr. Manoj has opted for the provisions of section 115BAC, exemption u/s 10(32) would not be available]	-
(Income of minor daughter would be included in the hands of Mr. Manoj, since his income, before including minor daughter's income, is higher than his wife's income).	
Taxable Income	6,05,000

Computation of Taxable income of Mrs. Daya for A.Y. 2023-24

Particulars	₹
Salary income (computed)	3,80,000
Loan received from Ramu & Jay (Pvt.) Ltd. [Such loan amount would not be considered as deemed dividend under section 2(22)(e), even though Mrs. Daya has substantial interest (holding 20% shares or more) in the Ramu & Jay (Pvt.) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception]	Nil
Taxable Income	3,80,000

Question 6

Mr. Raja gifted a sum of ₹ 8 lakhs to his brother's minor son on 14-5-2021. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Raja. Son of Mr. Raja's brother invested the amount in fixed deposit with SBI@ 9% p.a. interest and Mrs. Raja received interest of ₹ 81,000 on these debentures during the previous year 2021-22. Discuss the tax implications under the provisions of the Income-tax Act, 1961.(MTP 4 Marks Oct'22 & Oct '18)

Answer 6

In the given case, Mr. Raja gifted a sum of ₹ 8 lakhs to his brother's minor son on 14.5.2021 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Raja's wife on the same date. Mr. Raja's brother's minor son invested the gifted amount of ₹ 8 lakhs in fixed deposit with SBI.

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 attracted¹.

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Raja's brother's son from fixed deposits would be included in the total income of Mr. Raja's brother, assuming that Mr. Raja's brother's total income is higher than his wife's total income, before including minor's income. Mr. Raja's brother can claim exemption of ₹ 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Raja would be taxable in the hands of Mr. Raja as per section 64(1)(iv).

This is because both Mr. Raja and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

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In the hands of Mr. Raja, interest received by his spouse on debentures of ₹ 8 lakhs alone would be included and not the entire interest income on the debentures of ₹10 lakhs, since the cross transfer is only to the extent of ₹ 8 lakhs.

Hence, only proportional interest (i.e., 8/10th of interest on debentures received) ₹ 64,800 would be includible in the hands of Mr. Raja.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

¹ It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.

Question 7

Mrs and Mr. Naresh Yadav have two minor children Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2019:

- (i) **Mahi received a gift of ₹ 85,000 from her friend's father on the occasion of her birthday.**
- (ii) **Nonu won a prize money of ₹3,00,000 in National Sports competition. This was invested in debentures of a company, from which interest of ₹ 25,000 (gross) accrued during the year.**

Mr. Marsh's income before considering clubbing provisions is higher than that of his wife.

Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required. (MTP 5 Marks, Oct'19)

Answer 7

(i)	<p>Gift received from non-relative by minor daughter Mahi</p> <p>Gift of ₹ 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife.</p> <p>Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav under section 10(32)</p>
(ii)	<p>Prize money of ₹ 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu</p> <p>Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Sports Competition by minor son Nonu from exercise of special talent would not be included in the income of either parent.</p> <p>However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent.</p> <p>Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).</p>

Question 8

Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on, 1st January, 2022. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2022 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2022, which were sold for ₹ 75,000 on 30th December, 2022. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business

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started on 1.4.2022. She suffered loss of ₹ 15,000 in the business in Financial Year 2022-23. In whose hands the above income and loss shall be included in Assessment Year 2023 -24? Support your answer with brief reasons. (MTP 4 Marks April '23 & Oct '20)

Answer 8

Interest on loan

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

Loss from business

Since the capital was invested in business by Ms. Nisha on 1st April, 2022, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

Capital Gain on sale of shares of listed company

The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable @ 15% in the hands of Ms. Nisha.

Question 9

A proprietary business was started by Smt. Rani in the year 2019. As on 1.4.2020 her capital in business was ₹ 3,00,000. Her husband gifted ₹ 2,00,000 on 10.4.2020 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2020-21, ₹ 1,50,000 and Financial year 2021-22 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2022-23 with reasons. (MTP 3 Marks Apr'19, RTP May'18)

Answer 9

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y. 2022-23 is computed as under:

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Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
	₹	₹	₹
Capital as at 1.4.2020	3,00,000	-	3,00,000
Investment on 10.04.2020 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2020-21 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2020	1,50,000		1,50,000
Capital employed as at 1.4.2021	4,50,000	2,00,000	6,50,000
Profit for F.Y.2021-22 to be apportioned on the basis of capital employed as at 1.4.2021 (i.e., 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2022-23 is ₹1,20,000.

Question 10

Mr. Vaibhav started a proprietary business on 01.04.2022 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2022-23. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2023, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2023-24. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024-25. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed? (RTP May'23)

Answer 10

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2023 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024-25 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)

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Capital as on 1.4.2021	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2021-22 to be apportioned on the basis of capitalememployed on the first day of the previous year i.e. as on 1.4.2021 (3:5)	1,50,000 $4,00,000 \times \frac{3}{8}$	2,50,000 $4,00,000 \times \frac{5}{8}$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2024-25 is ₹ 2,50,000.

In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

Note: The provisions of section 56(2)(x) would **not** be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his wife.

Question 11

Suresh gifted ₹10 lakhs to his wife, Shagun on her birthday on, 29th February, 2020. Shagun lent such amount to Kinjal on 1st April, 2020 for six months on which she received interest of ₹ ₹ 75,000. The said sum of ₹ 75,000 was invested in shares of a listed company on 5th October, 2020, which were sold for ₹ 90,000 on 30th March, 2021. Securities transactions tax was paid on purchase and sale of such shares. In in whose hands the above income shall be included in A.Y.2021-22. Support your answer with brief reasons. (MTP 3 Marks, Oct'21)

Answer 11

In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 75,000, being the amount of interest on loan received by M^{rs} Shagun, wife of Mr. Suresh, would be includible in the total income of Mr. Suresh, since such loan was given out of the sum of money received by her as gift from her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 15,000 (₹ 90,000, being the sale consideration less ₹75,000, being the cost of acquisition) arising in the hands of M^{rs} Shagun from sale of shares acquired by investing the interest income of ₹75,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Suresh. Thus, such income is taxable in the hands of Mrs. Shagun.

Question 12

Mr. Vijay gifted a sum of ₹ 4 lakhs to his brother's wife on 19-6-2019. On 21-7-2019, his brother gifted a sum of ₹ 3 lakhs to Mr. Vijay's wife. The gifted amounts were invested as fixed deposits in banks by M^{rs} 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. (MTP 4 Marks, May'20)

Answer 12

In the given case, Mr. Vijay gifted a sum of ₹4 lakhs to his brother's wife on 19.06.2019 and simultaneously, his brother gifted a sum of ₹3 lakhs to Mr. Vijay's wife on

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21.07.2019. The gifted amounts were invested as fixed deposits in banks by M₹ 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 Morori (1967) 66 ITR 142.

Accordingly, the interest income arising to M₹ 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., ₹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 ₹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 ₹4 lakhs, since the cross transfer is only to the extent of ₹3 lakhs.

Question 13

Mr. Shashank is an employee of KML (P) Ltd. drawing a monthly salary of ₹ 30,000. He provides you the following information for the previous year 2017-18:

- (i) **He had a fixed deposit of ₹ 4,00,000 with State Bank of India with interest @10%. He instructed bank to credit such interest on deposit to the saving account of Mr. Ram, his sister's son, to help him in his higher education.**
- (ii) **He gifted a flat to Mrs Kajal (wife of Mr. Shashank) on April 1, 2017. During the previous year 2017-18, she received a rent of ₹ 20,000 p.m. from letting out the flat.**
- (iii) **He gifted ₹ 10,00,000 to M₹ Kajal on 1st April, 2017 which Mrs Kajal invested in her business on the same day. Capital in the business before such investment was ₹ 20,00,000. She earned profits from business for the financial year 2017 - 18 of ₹ 9,00,000.**
- (iv) **His minor son Sandeep earned income from company deposit of ₹ 1,50,000. Mr. Shashank and Mrs Kajal do not have any other income during the P.Y. 2017-18. Compute the total income of Mr. Shashank and Mrs Kajal for A.Y. 2018-19. (MTP 6 Marks, Aug'18)**

Answer 13

Computation of Total income of Mr. Shashank and Mrs Kajal for the A.Y. 2018 -19

Particulars	Mr. Shashank (₹)	M₹ Kajal (₹)
Salary income (₹ 30,000 x 12) Less standard deduction ₹ 50,000 (As per amendment)	3,10,000	
Income from house property [₹ 2,40,000 (₹ 20,000 x 12) less standard deduction of 30%] (Note 1)	1,68,000	
Income from other sources		
Interest on fixed deposit with State bank of India (₹ 4,00,000 x 10%) (Note 2)	40,000	

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Profits and gains from business or profession		
Profits earned by M₹ Kajal from her business (Note 3)	3,00,000	6,00,000
Income before including income of minor child under section 64(1A)	8,18,000	6,00,000
Income from other sources		
Minor son Sandeep - Income from company deposit (Note 4)	1,48,500	
Total income	9,66,500	6,00,000

Notes:

- (1) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. Shashank shall be deemed to be the owner of the flat gifted to Mrs Kajal and hence, the income arising from the same shall be computed in the hands of Mr. Shashank.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of M₹ Kajal, since she has received immovable property without consideration from a relative i.e., her husband.

- (2) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 40,000 transferred by Mr. Shashank to Mr. Ram shall be included in the total income of Mr. Shashank.
- (3) Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case M₹ Kajal received a gift of ₹ 10,00,000 on 1.4.2017 from her husband which she invested in her business on the same day. The income to be clubbed in the hands of Mr. Shashank for the A.Y. 2018-19 is computed as under:

Particulars	M₹ Kajal's capital contribution (₹)	Capital contribution out of gift from Mr. Shashank (₹)	Total (₹)
Capital as on 1.4.2017	20,00,000	10,00,000	30,00,000
Profit for P.Y. 2017-18 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2017 (2:1)	6,00,000 (9,00,000 x 2/3)	3,00,000 (9,00,000 x 1/3)	9,00,000

Therefore, the income to be clubbed in the hands of Mr. Shashank for the A.Y.2018-19 is ₹ 3,00,000.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of M₹ Kajal, since she has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e, her husband.

- (4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 1,50,000 received by minor son Sandeep from company deposit shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. Shashank, since Mr. Shashank's income of ₹ 8,68,000 (before including the income of the minor child) is greater than M₹ Kajal's income of ₹

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6,00,000. Therefore, ₹ 1,48,500 (i.e., ₹ 1,50,000 – ₹ 1,500) shall be included in Mr. Shashank's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Question 14

Mr. Om has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. Uma, who in turn has gifted the same to Mrs. Pallavi, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. Om and Mrs. Pallavi.

Will your answer be different if the said property was gifted to his son, husband of Mrs. Pallavi? (MTP 4 Marks March '23)

Answer 14

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Therefore, in this case, Mr. Om would be the deemed owner of the house property transferred to his wife Mrs. Uma without consideration.

As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 24@30% of ₹ 3,00,000]

In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. Pallavi, being Mr. Om's son's wife, would be included in the income of Mr. Om, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. Pallavi.

In case the property was gifted to Mr. Om's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Note - The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. Pallavi in the hands of Mr. Om. [without first applying the provisions of section 27(i) to deem Mr. Om as the owner of the house property transferred to his wife Mrs. Uma without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration.

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Gift of house property by Mr. Om to Mrs. Pallavi, via Mrs. Uma, can be viewed as an indirect transfer by Mr. Om to Mrs. Pallavi.

Question 15

Mr. Samrat and his wife, Mrs. Komal, holds 12% voting power each in ABC (P) Ltd. Mr. Samrat and Mrs. Komal are working in ABC (P) Ltd. However, Mrs. Komal is not qualified for the job. From the following information given in respect of F.Y. 2021-22, you are required to compute the gross total income of Mr. Samrat and Mrs. Komal for the A.Y. 2022-23

- (i) Dividend of ₹ 22,500 and ₹ 45,000 is received by Mr. Samrat and Mrs. Komal, respectively, from ABC (P) Ltd. Mr. Samrat has instructed the company to pay 50% of his dividend to Ms. Kajal, daughter of his deceased brother.
- (ii) Salary earned by Mr. Samrat and Mrs. Komal from ABC (P) Ltd. is ₹ 8,50,000 and ₹ 5,50,000, respectively.
- (iii) Business income earned by Mr. Samrat from his sole proprietary business is ₹ 15,60,000
- (iv) Interest on fixed deposit earned by Mrs. Komal of ₹ 9,00,000.
- (v) Their son, Akash, aged 10 years having PAN, received interest of ₹ 54,000 from bank on a fixed deposit created by his grandfather in his name.(RTP May '22)

Answer 15

Computation of Gross Total Income of Mr. Samrat and Mrs. Komal for A.Y. 2022 -23

Particulars	Mr. Samrat		Mrs. Komal	
	₹	₹	₹	₹
Salary of Samrat	8,50,000			-
Less: Standard deduction under section 16(ia)	50,000	8,00,000		-
Salary of Komal	5,50,000			-
Less: Standard deduction under section 16(ia)	50,000	5,00,000		-
[Salary earned by Mrs. Komal has to be included in the total income of Mr. Samrat, since he has substantial interest in the concern (i.e., having 24% voting power in ABC (P) Ltd., along with his wife) and Mrs. Komal does not have any professional qualification for the job.]				
Business Income		15,60,000		-
Dividend income from ABC (P) Ltd. [Taxable in the hands of Mr. Samrat as per section 60, since he transferred the income i.e., dividend without transferring the asset i.e., shares]	[22,500 / 90 x 100 x 2]	50,000	[45,000 / 90 x 100]	50,000
Interest on Fixed Deposit earned by Mrs. Komal		-		9,00,000
Total Income (before including minor's income)		29,10,000		9,50,000
Income of minor child to be included in Mr. Samrat's income, since his total income before including minor's income is higher than that	60,000			

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of Mrs. Komal. [₹ 54,000 /90 x 100]				
Less: Exemption of ₹ 1,500 u/s 10(32) in respect of the income of each child so included.	1,500	58,500		
Gross Total Income		29,68,500		9,50,000

Question 16

Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old furnished the following information:

S. No.	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Anandi	9,60,000
(ii)	Income of minor son "A" who suffers from disability specified in section 80U	3,08,000
(iii)	Income of minor daughter "C" from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr. Dharmesh	17,50,000
(v)	Cash gift received by minor daughter "C" on 02-10-2020 from friend of Mrs. Anandi, on winning of a story writing competition	45,000
(vi)	Income of minor son "B" form scholarship received from his school	1,00,000
(vii)	Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from scholarship	5,000

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2021-22 assuming that they have not opted to be taxed under section 115BAC. (PYP 5 Marks July'21, MTP 5 Marks Oct '23)

Answer 16

Computation of Total Income of Mr. Dharmesh and Mrs. Anandi for A.Y. 2021-22

Particulars	Mr. Dharmesh	Mrs. Anandi
	Amount (₹)	
Salary income (computed)		9,60,000
Income from garment trading business	17,50,000	
Total Income before including income of minor children	17,50,000	9,60,000
Income of minor son "A"		
Income of ₹ 3,08,000 of minor son A who suffers from disability specified in section 80U [Since minor child A is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child]		
Income of minor son "B"		

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Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)]		-	
Income from fixed deposit with PNB	5,000		
[Since Mr. Dharmesh's income is greater than that of Mrs. Anandi, income of minor son B from fixed deposit would be included in the hands of Mr. Dharmesh. Interest from bank deposit has to be included in Mr. Dharmesh's income, even if deposit is made out of income earned from scholarship]			
Less: Exemption under section 10(32)	1,500	3,500	
Income of minor daughter "C"			
Income of ₹ 1,86,000 from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent]		Nil	
Hence, clubbing provisions will not apply in this case/no adjustment is required.			
Cash gifts of ₹ 45,000 received from friend of Mrs. Anandi [Gift not exceeding ₹ 50,000 received from a non-relative is not taxable under section 56(2)(x)]			
Hence, clubbing provisions will not apply in this case / no adjustment is required.			
Gross Total Income/ Total Income		17,53,500	9,60,000

Note - As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16). Alternate view - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialised knowledge and experience and hence would be covered under the proviso to section 64(1A) and thus should not be included in the income of parent.

Question 17

Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the assessment year 2020-21 from the following:

- (i) **Salary received by Shri Ram Kumar from a company ₹ 1,80,000 per annum and Smt. Ram Kumar also doing job in a company and getting salary of ₹ 2,40,000 per annum.**

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- (ii) Shri Ram Kumar transferred a flat to his wife Smt. Ram Kumar on 1st September, 2019 for adequate consideration. The rent received from this let-out flat is ₹ 9,000 per month.
- (iii) Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received ₹ 36,000 and Smt. Ram Kumar received ₹ 64,000 as interest from the firm and also had a share of profit of ₹ 12,000 and ₹ 26,000 respectively.
- (iv) Smt. Ram Kumar transferred 10% debentures worth ₹ 3,00,000 to Shri Ram Kumar. The whole amount of ₹ 3,30,000 invested by Shri Ram Kumar in the similar investments and earned income of ₹ 39,000.
- (v) Mother of Shri Ram Kumar transferred a property to Master Rohitha (son of Shri Ram Kumar) in the year 2018. Master Rohitha (aged 13 years) received ₹ 15,000 as income from this property on 20th February, 2020. (PYP 6 Marks, Nov'20)

Answer 17

Computation of Gross Total Income of Shri Ram Kumar and Smt. Ram Kumar for A.Y. 2020-21

Particulars	Shri Ram Kumar		Smt. Ram Kumar	
	₹	₹	₹	₹
Salary	1,80,000		2,40,000	
Less: Standard deduction		1,30,000		1,90,000
Income from house property	45,000		63,000	
Rent received (taken as annual value in the absence of other information)				
Less: Deduction u/s 24(a)@30% of Annual Value	13,500	31,500	18,900	44,100
Note – Clubbing provisions are not attracted since the transfer to spouse is for adequate consideration. Therefore, the rent for the 5 months				

5 No tax is payable u/s 112A in respect of LTCG of ₹ 50,000, since the same is less than ₹ 1,00,000

up to the date of transfer is taxable in the hands of Ram Kumar and thereafter, in the hands of his wife.				
Profits and gains of business or profession				
Share of profit from firm [Exempt under section 10(2A)]	-		-	

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Interest from firm (assumed that the same is fully deductible in the hands of the firm)	36,000	36,000	64,000	64,000
Income from other sources				
Interest on debentures (interest@10% on debentures transferred to Shri Ram Kumar without consideration to be included in the hands of the transferor-spouse, Smt. Ram Kumar) = 10% of ₹ 3 lakh (See Note 1 below)		-	30,000	
Income from investments [$39,000 \times 3,00,000/3,30,000$] (The clubbing provisions will apply even if the form of the asset is changed. If the debentures are redeemed and invested in similar investments, income from ₹ 3 lakh invested (being the value of debentures transferred) alone will be included in the hands of the transferor-spouse, Smt. Ram Kumar. Income from accretion to such debentures (i.e., income earned by investing debenture interest of ₹ 30,000 will not be included in the hands of Smt. Ram Kumar. The same i.e., ₹ 3,545, will be taxable in the hands of the Shri Ram Kumar himself) (See Note 1 below)	3,545	3,545	35,455	65,455
Total income (before including minor's income)		2,01,045		3,63,555
Income of minor son Rohitha to be included in Smt. Ram Kumar's income, since her total income before including minor's income is higher than that of her husband. She is eligible for exemption of ₹ 1,500 u/s 10(32) in respect of the income so included. Therefore, income to be included in her income is ₹ 13,500 (₹ 15,000 - ₹ 1,500) (See Note 2 below)			-	13,500

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Total Income	2,01,045	3,77,055
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Note -

1. In respect of transfer of debentures by Smt. Ram Kumar to Shri Ram Kumar, it is not mentioned whether the transfer is for adequate consideration or not. Moreover, the date of transfer is also not given. The above solution is given on the assumption that transfer is for inadequate consideration. However, if it is assumed that transfer is for adequate consideration, the clubbing provisions would not be attracted. In such case, the interest on Debentures of ₹ 30,000 as well as income from investment of ₹ 39,000 will be taxable in the hands of Shri Ram Kumar.
2. In respect of property transferred to Rohitha, the question simply states ₹ 15,000 as the income from property, without mentioning the nature of income (whether rental income or otherwise) or nature of property (whether house property or otherwise). Therefore, the said amount has not been treated as income from house property and deduction u/s 24(a) has not been provided in the above solution.
However, if such sum is treated as income from house property, the income to be included in Smt. Ram Kumar's income would be ₹ 9,000 [₹ 15,000 - ₹ 4,500 (30% of ₹ 15,000 allowable as deduction u/s 24(a)) - ₹ 1,500 (exemption u/s 10(32))], and the same would be included under the head "Income from house property". Consequently, her total income would be ₹ 3,72,555.

Question 18

From the following transactions compute the total income of Mr. Raman and his wife Savita for the Assessment year 2022-23.

- (i) Mr. Raman had a fixed deposit of ₹ 5,00,000 in the bank. He instructed the bank to credit the interest on deposit @6% from 01-04-2021 to 31-03-2022 to the savings account of his brother's son for his education.
- (ii) Savita is a B.com graduate and working in the ABC Private Limited as an accountant with a monthly salary of ₹ 25,000. Raman holds 30% equity shares of the ABC Private Limited.
- (iii) Raman started proprietary business on 01-04-2000 with a capital of ₹ 10,00,000. He incurred a loss of ₹ 2,00,000 during the previous year 2020-21. To overcome the financial position, Savita gifted a sum of ₹ 4,00,000 to him on 01-04-2021 which was immediately invested in the business by Mr. Raman. He earned a profit of ₹ 3,00,000 during the previous year 2021-22
- (iv) Sajjan, younger son of Raman, aged 17 years won in a debate competition during the annual competitions held at his school and received a cash award of ₹ 10,000 and he also earned interest of ₹ 7,000 on balance maintained in his savings bank account. (PYP 4 Marks Nov '22)

Answer 18

Computation of Total Income of Mr. Raman and Mrs. Savita for A.Y. 2022-23

Particulars	Mr. Raman	Mrs. Savita
	Amount (₹)	

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(i) Interest on fixed deposits [Income would be included in the hands of Raman, since he has transferred income to his brother's son without transfer of the asset, being fixed deposit] [₹ 5,00,000 x 6%]	30,000	
(ii) Salary income [₹ 3,00,000 (₹ 25,000 x 12) less standard deduction of ₹ 50,000]		2,50,000
[Mrs. Savita's salary would not be included in the income of Raman, who has substantial interest in the company, since she possesses the relevant professional qualifications for working as an accountant]		
(iii) Savita gifted ₹ 4,00,000 to Mr. Raman, which Mr. Raman has invested in the business. In such case, proportionate income (i.e., $1/3 \times ₹ 3,00,000$) arising from such investment is to be	2,00,000	1,00,000
included in the total income of Savita.		
Mr. Raman's contribution in capital as on 1.4.2021 = ₹ 8,00,000 [₹ 10,00,000 - ₹ 2,00,000]		
Mrs. Savita's contribution on 1.4.2021 = ₹ 4,00,000		
₹ 3,00,000, being the profit for P.Y.2021-22 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2021 (8:4 or 2:1)		
Total income [before considering minor income from interest on savings account]	2,30,000	3,50,000
(iv) Cash award won in a debate by Sajjan, minor son,		
would not be included in the hands of either	-	
parent, since such income arises from his own skills/talent.		-
However, interest of ₹ 7,000 on savings bank account (after providing for deduction of ₹ 1,500) is to be included in the hands of Mrs. Savita, since		
her income is higher than that of her husband [₹ 7,000 - ₹ 1,500]	-	5,500
Gross Total Income	2,30,000	3,55,500
Less: Deduction under section 80TTA (Interest on savings bank account)	-	5,500
Total Income	2,30,000	3,50,000

Question 19

Suresh gifted ₹10 lakhs to his wife, Shagun on her birthday on, 29th February, 2020. Shagun lent such amount to Kinjal on 1st April, 2020 for six months on which she received interest of ₹ ₹ 75,000. The said sum of ₹ 75,000 was invested in shares of a listed company on 5th October, 2020, which were sold for ₹ 90,000 on 30th March, 2021. Securities transactions tax was paid on purchase and sale of

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Paper 3 - Taxation

such shares. In in whose hands the above income shall be included in A.Y.2021-22. Support your answer with brief reasons. (RTP Nov '18, Nov'19)

Answer 19

In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 75,000, being the amount of interest on loan received by M^{rs} Shagun, wife of Mr. Suresh, would be includible in the total income of Mr. Suresh, since such loan was given out of the sum of money received by her as gift from her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 15,000 (₹ 90,000, being the sale consideration less ₹75,000, being the cost of acquisition) arising in the hands of M^{rs} Shagun from sale of shares acquired by investing the interest income of ₹75,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Suresh. Thus, such income is taxable in the hands of Mrs. Shagun.

Section - B

Question 1

Examine under which heads the following incomes are taxable:

- (x) **Rental income in case property held as stock-in-trade for 3 years**
- (xi) **Dividend on shares in case of a dealer in shares**
- (xii) **Salary received by a partner from his partnership firm**
- (xiii) **Rental income of machinery**
- (xiv) **Winnings from lotteries by a person having the same as business activity**
- (xv) **Salaries payable to a Member of Parliament**
- (xvi) **Receipts without consideration**
- (xvii) **In case of retirement, interest on employee's contribution if provident fund is unrecognized.**
- (xviii) **Rental income in case of a person engaged in the business of letting out of properties.**

Answer 1

	Particulars	Head of Income
(I)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Dividend on shares in case of a dealer in shares	Income from other sources
(iii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iv)	Rental income of machinery (See Note below)	Profits and gains of business or profession/Income from other sources
(v)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi)	Salaries payable to a Member of Parliament	Income from other sources
(vii)	Receipts without consideration	Income from other sources

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(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(xi)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

Question 2

Examine whether the following are chargeable to tax and the amount liable to tax :

- (iii) **A sum of Rs. 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.**
- (iv) **Interest on enhanced compensation of Rs. 96,000 received on 12-3-2022 for acquisition of urban land, of which 40% relates to P.Y.2022-23.**

Answer 2

S. No.	Taxable/ Not Taxable	Answer Amount liable to tax (₹)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B (1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of Rs. 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2022-23 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, Rs. 48,000 is chargeable to tax under the head "Income from other sources".

Question 3

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Paper 3 - Taxation

On 10.10.2023, Mr. Gavin (a bank employee) received Rs. 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2014-15. Out of this interest, Rs. 1,50,000 relates to the financial year 2015-16; Rs. 1,65,000 to the financial year 2016-17; and Rs. 1,85,000 to the financial year 2017-18. He incurred Rs. 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2024-25?

Answer 3

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates. Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'. 50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income. Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2024-25:

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x Rs. 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

Question 4

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2024:

- (iv) Cash gift of Rs. 51,000 received from her friend on the occasion of her "Shastiapha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (v) On the above occasion, a diamond necklace worth Rs. 2 lacs were presented by her sister living in Dubai.
- (vi) When she celebrated her daughter's wedding on 21.2.2024, her friend assigned in Mrs. Healy's favor, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was Rs. 52,000.

Compute the income, if any, assessable as income from other sources.

Answer 4

- (iv) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age. The gift of Rs. 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds Rs. 50,000.
- (v) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jeweler falls within the definition of "property".
- (vi) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case. Any sum

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of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds Rs. 50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x). Therefore, there are two possible views in respect of the value of fixed deposit assigned in favor of Mrs. Hemali –

- (1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".
- (2) However, another possible view is that fixed deposit assigned in favor of Mrs. Hemali falls within the meaning of "sum of money" received. Income assessable as "Income from other sources" If the first view is taken, the total amount chargeable to tax as "Income from other sources" would be Rs. 51,000, being cash gift received from a friend on her Shasthi Poothi. As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be Rs. 1,03,000 (Rs. 51,000 + Rs. 52,000).

Question 5

Examine the following transactions in the context of Income-tax Act, 1961:

- (iii) **Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2021 for Rs. 3,00,000 when the market price was Rs. 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at Rs. 4,45,000. The transfer was not subjected to securities transaction tax. Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.**
- (iv) **Mr. Cherian is employed in a company with taxable salary income of Rs. 5,00,000. He received a cash gift of Rs. 1,00,000 from Atma Charitable Trust (registered under section 12AB) in December 2021 for meeting his medical expenses. Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Cherian?**

Answer 5

- (iii) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds Rs. 50,000. Thus, share received by M/s B. Co. (P) Ltd. from Mr. B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of Rs. 2,00,000. As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares. The full value of consideration (Rs. 5,00,000) less the indexed cost of acquisition (Rs. 4,45,000) would result in a long term capital gain of Rs. 55,000 in the hands of Mr. B.
- (iv) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of Rs. 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Cherian.

Question 6: illustration

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Paper 3 - Taxation

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of Rs. 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of Rs. 4,00,000. The company is engaged in some manufacturing activity.

- (iii) **Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?**
- (iv) **What would be your Answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)?**

Answer 6

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22) (e), to the extent the company possesses accumulated profits.

- (v) The provisions of section 2(22) (e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (vi) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a
- (vii) manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22) (e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.
- (viii) The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., Rs. 4,00,000 and not the amount of loan which is Rs. 5,00,000.

Question 7: illustration

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2023-24 from his friend Mr. B, -

- (4) **Cash gift of Rs. 75,000 on his anniversary, 15th April, 2023.**
- (5) **Bullion, the fair market value of which was Rs.60,000, on his birthday, 19th June, 2023.**
- (6) **A plot of land at Faridabad on 1st July, 2023, the stamp value of which is Rs. 5 lakh on that date. Mr. B had purchased the land in April, 2009.**

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ Rs. 400 each on 19th June, 2023, the fair market value of which was Rs. 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2023.

Further, on 1st November, 2023, Mr. A took possession of property (office building) booked by him two years back at Rs. 20 lakh. The stamp duty value of the property as on 1st November, 2023 was Rs. 32 lakh and on the date of booking was Rs. 23 lakh. He had paid Rs. 1 lakh by account payee cheque as down payment on the date of booking. On 1st March, 2024, he sold the plot of land at Faridabad for Rs.7 lakh. Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2024-25.

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Paper 3 - Taxation**Answer 7****Computation of "Income from other sources" of Mr. A for the A.Y. 2024-25**

	Particulars	Rs.
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds Rs.50,000	75,000
(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds Rs. 50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4)	Difference of Rs. 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
5	Difference between the stamp duty value of Rs. 23 lakh on the date of booking and the actual consideration of Rs. 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds Rs. 2,00,000, being the higher of Rs. 50,000 and 10% of consideration	
		3,00,000
	Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. A for the A.Y.2024-25

Particulars	Rs.
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

Question 8: illustration

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- (i) **Akhil HUF received Rs. 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.**
- (ii) **Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is Rs. 9,00,000.**
- (iii) **Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that**

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Paper 3 - Taxation

- date was Rs. 100 per share. He also received jewellery worth Rs. 45,000 (FMV) from his nephew on the same day.
- (iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is Rs. 5,25,000.

Answer 8

	Taxable / Non-taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding Rs.50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds Rs. 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds Rs.50,000. Hence, the entire amount of Rs. 55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

Question 9: illustration

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Rajesh, who is a dealer in automobile spare parts, for Rs. 90 lakh on 1.1.2024, when the stamp duty value was Rs. 150 lakh. The agreement was, however, entered into on 1.9.2023 when the stamp duty value was Rs. 140 lakh. Mr. Hari had received a down payment of Rs. 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for Rs. 75 lakh on 12th July, 2022. Would your Answer be different if Hari was a share broker instead of a property dealer?

Answer 9

Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh

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In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.

Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of Rs. 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, Rs. 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., Rs. 150 lakh, and the purchase price i.e., Rs. 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration

Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds Rs. 9,00,000, being the higher of Rs. 50,000 and 10% of consideration. Therefore, Rs. 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs. 150 lakh) and the actual consideration (i.e., Rs. 90 lakh) would be taxable under section 56(2)(x) in the hands of **Mr. Rajesh**, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, Rs. 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., Rs. 150 lakh) and the purchase price (i.e., Rs. 75 lakh) would be chargeable as short-term capital gains. It may be noted that	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker, (except where the property transferred in a residential unit fulfilling the stipulated conditions, which is not so in this case). Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate

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under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of Rs. 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

consideration and the difference between the consideration and stamp duty value exceeds Rs. 9,00,000, being the higher of Rs. 50,000 and 10% of consideration. Therefore, **Rs. 60 lakh**, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs. 150 lakh) and the actual consideration (i.e., Rs. 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Question 10: illustration

Interest on enhanced compensation received by Mr. G during the previous year 2021-22 is Rs. 5,00,000. Out of this interest, Rs. 1,50,000 relates to the previous year 2019-20, Rs. 1,65,000 relates to previous year 2020-21 and Rs. 1,85,000 relates to previous year 2021-22. Discuss the tax implication, if any, of such interest income for A.Y.2024-25.

Answer 10

The entire interest of Rs. 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2023-24.

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000
Interest chargeable under the head "Income from other sources"	2,50,000

Question 11: illustration (NEW SM)

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

Answer 11

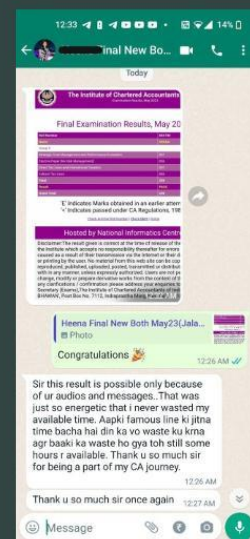
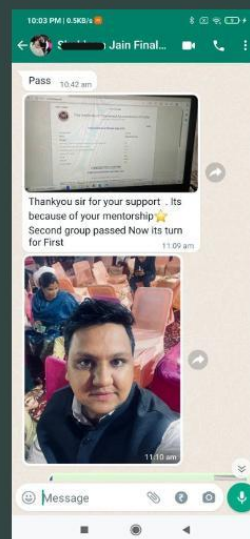
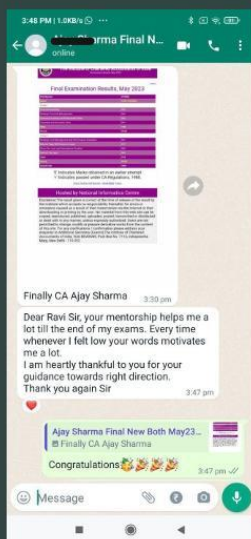
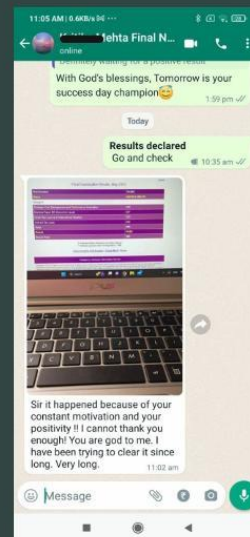
The statement is not correct. As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or

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legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

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Paper 3 - Taxation

Chapter 5

AGGREGATION OF INCOME, SET-OFF AND CARRY FORWARD OF LOSSES

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP				Q5			Q7		Q6		Q4	Q1,Q3 ,Q9
RTP			Q8		Q2							
Q & A												
MTP			Q16	Q11	Q12, Q15		Q13, Q14	Q17	Q10	Q9, Q18	Q8	Q3
PYP		Q27	Q2	Q23	Q24		Q26		Q25	Q1		
RTP	Q28	Q19		Q21	Q7, Q20		Q6		Q4	Q5	Q22	

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Mr. Ramesh, Mr. Mahesh and Mr. Suresh jointly owned a flat in Mathura, which was let out to Dr. Rajesh from 01.04.2022. The annual rent paid by Dr. Rajesh for the flat was ₹ 5,40,000, credited equally to each of their account. Mr. Rajesh approached his tax consultant to seek clarity in relation to deduction of tax on payment of the rent. He informed his consultant that he occupied such flat for his personal accommodation and his receipts from his profession during the previous year 2021-22 was ₹ 58 lakhs. As tax consultant, choose the correct answer –
- No tax at source is required to be deducted since the rental payments are towards flat occupied for personal purpose
 - Tax is required to be deducted at source since the rent payment exceeds ₹ 2,40,000 and Dr. Rajesh is an individual having gross receipts from profession exceeding ₹ 50 lakh in the preceding financial year.
 - No tax is required to be deducted at source since the rent credited to each co-owner is less than ₹ 2,40,000
 - No tax is required to be deducted at source since Dr. Rajesh's gross receipts during the preceding financial year were less than ₹ 1 crore **(MTP 2 Marks, Sep '23)**

The **Answer** is (c)

2. The details of income/loss of Mr. Kumar for A.Y. 2019-20 are as follows:

Particulars	Amt. (in ₹)
Income from Salary (Computed)	5,20,000
Loss from self-occupied house property	95,000
Loss from let-out house property	2,25,000
Loss from specified business u/s 35AD	2,80,000

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Paper 3 - Taxation

Loss from medical business	1,20,000
Long term capital gain	1,60,000
Income from other sources	80,000

Compute gross total income of Mr. Kumar for A.Y. 2019-20:

- (a) ₹ 4,40,000
- (b) ₹ 3,20,000
- (c) ₹ 1,60,000
- (d) ₹ 4,80,000 (RTP May '20)

The Answer is (a)

3. During the A.Y.2022-23, Mr. A has a loss of ₹ 8 lakhs under the head "Income from house property" which could not be set off against any other head of income as per the provisions of section 71. The due date for filing return of income u/s 139(1) in case of Mr. A has already expired and Mr. A forgot to file his return of income within the said due date. However, Mr. A filed his belated return of income for A.Y.2022-23. Now, while filing return of income for A.Y.2023-24, Mr. A wishes to set off the said loss against income from house property for the P.Y. 2022-23. Determine whether Mr. A can claim the said set off.

- (a) No, Mr. A cannot claim set off of loss of ₹ 8 lakhs during A.Y. 2023-24 as he failed to file his return of income u/s 139(1) for A.Y. 2022-23.
- (b) Yes, Mr. A can claim set off of loss of ₹ 2 lakhs, out of ₹ 8 lakhs, from his income from house property during A.Y. 2023-24, if any, and the balance has to be carried forward to A.Y.2024 -25.
- (c) Yes, Mr. A can claim set off of loss of ₹ 2 lakhs, out of ₹ 8 lakhs, from his income from any head during A.Y. 2023-24 and the balance has to be carried forward to A.Y.2024 -25.
- (d) Yes, Mr. A can claim set off of loss of ₹ 8 lakhs during A.Y. 2023-24 from his income from house property, if any, and the balance has to be carried forward to A.Y.2024 -25. (MTP MTP 2 Marks, Oct '23)

Ans: (d)

4. Mr. Ravi incurred loss of ₹ 4 lakh in the P.Y.2022-23 in leather business. Against which of the following incomes earned during the same year, can he set-off such loss?

- (i) Profit of ₹ 1 lakh from apparel business
- (ii) Long-term capital gains of ₹ 2 lakhs on sale of jewellery
- (iii) Salary income of ₹ 1 lakh

Choose the correct answer:

- (a) First from (ii) and thereafter from (i); the remaining loss has to be carried forward.
- (b) First from (i) and thereafter from (ii) and (iii)
- (c) First from (i) and thereafter from (iii); the remaining loss has to be carried forward First from (i) and thereafter from (ii); the remaining loss has to be carried forward (MTP 2 Marks April '23)

Ans: (d)

5. X Ltd. files its return of loss for the A.Y. 2019-20 on 01.12.2019. The following data is taken from return submitted by the company:

Business Loss for P.Y. 2018-19 (before depreciation)	₹1,70,000
Depreciation	₹30,000
Short term capital loss	₹45,000
Long term capital gain	₹10,000
Income from other sources	₹23,000

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Paper 3 - Taxation

Unabsorbed depreciation pertaining to A.Y. 2017-18 and A.Y. 2018-19 which has been determined in pursuance of return filed	₹75,000
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Compute the amount of loss that can be carried forward by X Ltd.

- (a) ₹1,05,000
 (b) ₹ 30,000
 (c) ₹2,87,000
 (d) Nil (MTP 2 Marks, Oct'19)

Ans : (a)

6. Mr. Kumar, engaged in wholesale business of clothes and speculative business, discontinued its operations on 19.10.2021 and 30.09.2021, respectively. The cloth business loss upto 19.10.2021 for P.Y. 2021-22 was ₹ 8,000 and speculative business loss upto 30.09.2021 for P.Y. 2021-22 was ₹ 40,000. Out of total bad debts of ₹ 1,00,000 that were claimed by Mr. Kumar in respect of a particular debtor of cloth business, ₹ 60,000 was allowed by the Assessing Officer in P.Y. 2020-21. On 29.01.2022, Mr. Kumar received a sum of ₹ 68,000 from the debtor in full and final settlement. How much amount would be taxable in the hands of Mr. Kumar for A.Y. 2022-23?

- (a) ₹ 28,000
 (b) ₹ 20,000
 (c) ₹ 60,000
 (d) ₹ 68,000 (MTP 2 Marks March 22)

Ans : (b)

7. During the A.Y. 2021-22, Mr. Kabir has a loss of ₹ 6 lakhs under the head "Income from house property", loss of ₹ 5 lakhs from business of profession and income of ₹ 3 lakhs from long term capital gains. He filed his return of income for the A.Y. 2021-22 on 31.12.2021. Determine the total income of Mr. Kabir for A.Y. 2021-22 and the amount of loss which can be carried forward in a manner most beneficial to him?

- (a) Total income Nil; loss of ₹ 4,00,000 from house property and loss of ₹ 4,00,000 from business or profession
 (b) Total income ₹ 1,00,000; loss of ₹ 4,00,000 from house property.
 (c) Total income Nil; No loss is allowed to be carried forward.
 (d) Total income Nil; loss of ₹ 6,00,000 from house property. (MTP 2 Marks, March'21)

Ans: (d)

8. Mr. Rajan incurred loss of ₹ 5.3 lakh in the P.Y.2018-19 in toy business. Against which of the following income earned during the same year, can he set-off such loss?

- (a) profit of ₹ 2 lakh from wholesale cloth business
 (r) speculative business income of ₹ 80,000
 (s) long-term capital gains of ₹ 1.20 lakhs on sale of land
 (t) All of the above (RTP May '19)

Ans: The Answer is (d)

9. Mr. Arpan (aged 35 years) submits the following particulars for the purpose of computing his total income:

Particulars	₹
Income from salary (computed)	4,00,000

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Loss from let-out house property	(-) 2,20,000
Brought forward loss from let-out house property for the A.Y. 2020-21	(-) 2,30,000
Business loss	(-) 1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. Arpan for the A.Y.2021-22 and the amount of loss that can be carried forward for the subsequent assessment year?

- (e) Total income ₹ 2,00,000 and loss from house property of ₹ 2,50,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.
- (f) Total income ₹ 80,000 and loss from house property of ₹ 2,30,000 to be carried forward to subsequent assessment year.
- (g) Total income ₹ 1,80,000 and loss from house property of ₹ 2,30,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.
- (h) Total income is Nil and loss from house property of ₹ 70,000 to be carried forward to subsequent assessment year. **(RTP May '21, MTP 2 Marks, Sep '23)**

The Answer is (a)

Question & Answers

Question 1

Compute the gross total income of Mr. Prakhar for A.Y. 2022-23 and the losses to be carried forward, from the information given below:

- (i) Income from House Property (computed) ₹ 3,60,000
- (ii) Short term capital loss on shares of a company ₹ (-) 18,700
- (iii) Long term capital gain on sale of agricultural land ₹ 6,000
- (iv) Income from rubber business (plants grown by Mr. Prakhar) ₹ 80,000
- (v) Loss from garment business b/f discontinued in F.Y. 2019-20 ₹ (-) 70,000
- (vi) Loss from betting ₹ (-) 5,500
- (vii) Income from lotteries (net) ₹ 5,460

(PYP 4 Marks Nov '22)

Answer 1

Computation of gross total income of Mr. Prakhar for the A.Y.2022 -23

Particulars	₹	₹
Income from house property (computed)		3,60,000
Profits and gains from business and profession		
Income from rubber business [35% of income from manufacture of rubber is business income [80,000 x 35%] and the balance 65% would be agricultural income	28,000	
Less: Brought forward loss of ₹ 70,000 from garment business set-off to the extent of ₹ 28,000, set-off is permissible even if the business is discontinued	28,000	Nil

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Paper 3 - Taxation

Capital Gains Long-term capital gain on sale of agricultural land (Exempt, assuming that the same is rural agricultural land)		-
Income from Other Sources Income from lotteries (₹ 5,460 x 100/70)		7,800
[Note – Tax @30% has to be deducted on winnings from lotteries u/s 194B only if the amount of payment exceeds ₹ 10,000. However, in the question, winnings from lotteries is only ₹ 5,460 and the word “net” is given in the bracket. Since, the word “net” is written in the bracket in question, main solution is given based on the view that tax has been deducted on income from lotteries @30% and accordingly, the lottery income is grossed up. However, since no tax is deductible u/s 194B where lottery income does not exceed ₹ 10,000, the question can be answered without grossing up the lottery income of ₹ 5,460. In such a case, gross total income would be ₹ 3,65,460]		
Gross Total Income		3,67,800
Losses to be carried forward to A.Y.2023-24		₹
Loss from garment business pertaining to P.Y. 2019-20 (₹ 70,000 – ₹ 28,000)		42,000
Short term capital loss on shares of a company of A.Y. 2022-23		18,700
Loss of ₹ 5,500 from betting can neither be set-off nor be carried forward.		-

Note – In the question, long term capital gain on sale of agricultural land is given as ₹ 6,000. However, it is not mentioned as to whether the same is rural agricultural land or urban agricultural land. The main solution given above is based on the assumption that it is rural agricultural land. An alternate solution has been given below based on the assumption that it is urban agricultural land -

ALTERNATE SOLUTION

Computation of gross total income of Mr. Prakhar for the A.Y.2022 -23

Particulars	₹	₹
Income from house property (computed)		3,60,000
Profits and gains from business and profession		
Income from rubber business [35% of income from manufacture of rubber is business income [80,000 x 35%] and the balance 65% would be agricultural income	28,000	
Less: Brought forward loss of ₹ 70,000 from garment business set-off to the extent of ₹ 28,000, set-off is permissible even if the business is discontinued	28,000	Nil

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Capital Gains		
Long-term capital gain on sale of agricultural land, assuming that the same is urban agricultural land.	6,000	
Less: Set-off of Short-term capital loss of ₹ 18,700 against long-term capital gains to the extent of ₹ 6,000 by virtue of section 74(1)	6,000	Nil
Income from Other Sources		
Income from lotteries (₹ 5,460 x 100/70)		7,800
[Note – Tax @30% has to be deducted on winnings from lotteries u/s 194B only if the amount of payment exceeds ₹ 10,000. However, in the question, winnings from lotteries is only ₹ 5,460 and the word “net” is given in the bracket. Since, the word “net” is written in the bracket in question, main solution is given based on the view that tax has been deducted on income from lotteries @30% and accordingly, the lottery income is grossed up. However, since no tax is deductible u/s 194B where lottery income does not exceed ₹ 10,000, the question can be answered without grossing up the lottery income of ₹ 5,460. In such a case, gross total income would be ₹ 3,65,460]		
Gross Total Income		3,67,800
Losses to be carried forward to A.Y. 2023-24		₹
Loss from garment business pertaining to P.Y. 2019-20 (₹ 70,000 – ₹ 28,000)		42,000
Short term capital loss on shares of a company of A.Y. 2022-23 (₹ 18,700 – ₹ 6,000)		12,700
Loss of ₹ 5,500 from betting can neither be set-off nor be carried forward.		-

Question 2

Ms. Geeta, a resident individual, provides the following details of her income/losses for the year ended 31.03.2019:

	Particulars	Amount (₹)
(i)	Income from salary (computed)	41,20,000
(ii)	Rent received from house property situated in Delhi	5,00,000
(iii)	Interest on loan taken for purchase of above property. Loan was taken from a friend	7,50,000
(iv)	Rent received from house property situated in Jaipur	3,20,000
(v)	Interest on loan taken for house property in Mumbai, which is self-occupied. Loan was taken from PNB on 01.01.1999 for purchase of	1,57,000

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	this property.	
(vi)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. Loan was taken on 01.04.17 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
(vii)	Long-term capital gains on sale of equity shares computed in accordance with section 112A	8,95,000
(viii)	Interest on fixed deposit	73,000
(ix)	Loss from textile business	7,50,000
(x)	Speculation profit	2,30,000
(xi)	Lottery income	75,000
(xii)	Loss incurred by the firm in which she is a partner	1,60,000
(xiii)	Salary received as a partner from partnership firm. The same was allowed to firm	50,000
(xiv)	Brought forward short-term capital loss on sale of gold	2,75,000
(xv)	Brought forward loss on sale of equity shares of the nature specified u/s 111A	25,000
(xvi)	Life insurance premium paid for her son who is 30 years of age and is working in USA	15,000

Compute total income of Ms. Geeta for the assessment year 2019-20 and the amount of loss that can be carried forward.

For the above solution, you may assume principal repayment of loan as under:

- (1) **Loan taken for purchase of house property in Delhi - ₹ 2,50,000**
- (2) **Loan taken for purchase of house property in Mumbai = ₹ 50,000**
- (3) **Loan taken for repair of house properties in Delhi and Mumbai - ₹ 75,000**

Working notes should form part of your answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note. (PYP 10 Marks, May'19)

Answer 2

Computation of total income of Ms. Geeta for the A.Y.2019-20

Particulars				
Income from salary (computed)				41,20,000
Income from house property				
(i) House property at Delhi (Let out)				
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)		5,00,000		
Less: Deduction u/s 24				
(a) 30% of Annual Value [30% of ₹ 5 lakh]	1,50,000			
(b) Interest on loan for purchase of property	7,50,000			

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for repairs of property [` 1,50,000/2]	75,000	9,75,000	(4,75,000)	
(ii) House property at Jaipur (Let out)				
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)		3,20,000		
Less: Deduction u/s 24				
30% of Annual Value = 30% of ` 3,20,000		96,000	2,24,000	
(iii) House property at Mumbai (Self-occupied)				
Annual value of self-occupied property		Nil		
Less: Deduction u/s 24(b)				
Interest on loan for purchase and repairs (to be restricted to ` 30,000, since loan for purchase was taken prior to 1.4.1999)		30,000	(30,000)	
Loss from house property [(i) + (ii) + (iii)]			(2,81,000)	(2,00,000)
As per section 71(3A), loss from house property to be set-off against salary income to the extent of				
Profits and gains of business or profession				39,20,000
Speculation profit (assumed as business income)			2,30,000	
Salary received as partner of firm is taxable in her hands since the entire salary was allowed as deduction in the hands of the firm			50,000	
			2,80,000	
Set-off of loss from textile business to the extent of			(2,80,000)	Nil
Note – Share of loss of ` 1,60,000 incurred by the firm in which she is partner cannot be set-off against salary received as partner of firm or any other income, since loss from an exempt source cannot be set-off against profit from a taxable source.				
Capital Gains				
Long-term capital gains on sale of equity shares computed in accordance with section 112A			8,95,000	
Less: Set-off of brought forward short-term capital loss as per section 744				
B/f Short-term capital loss on sale of gold	2,75,000			
B/f Short-term capital loss u/s 111A	25,000		3,00,000	
Less: Set-off of balance loss of textile business5 [` 7,50,000 – ` 2,80,000 – ` 73000]			5,95,000	
			(3,97,000)	1,98,000

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4 As per section 74, B/f short-term capital loss can be set-off against long-term capital gain taxable u/s 112A. It is assumed that the eight year period for set-off of losses has not expired. 5 Permitted as per section 71(2)

Particulars		
Income from Other Sources		
Interest on fixed deposit	73,000	
Less: Set off balance loss of textile business to the extent of	(73,000)	
	Nil	
Lottery income (assumed as Gross Income)	75,000	75,000
Gross Total Income		41,93,000
Less: Deduction under Chapter VI-A		
Under section 80C		
Life insurance premium paid		
Life insurance premium paid to insure the life of her son allowable as deduction even if he is major, resides abroad and is not dependent on her	15,000	
Repayment of housing loan		
₹ 2,50,000, for house property in Delhi, not allowable since loan is taken from a friend	Nil	
₹ 50,000 for house property in Mumbai, allowable since loan is taken from a bank for purchase of property	50,000	
₹ 75,000, for house properties in Mumbai and Delhi, not allowable since loan is taken for repairs of properties	Nil	
		65,000
Total Income		41,28,000

Loss to be carried forward to A.Y.2020-21:

Particulars	
Loss from house property (₹ 2,81,000 - ₹ 2,00,000)	81,000
As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. Such loss can be carried forward for a maximum of eight assessment years.	

Question 3

Mr. X a resident individual submits the following information, relevant to the previous year ending March 31, 2021:

S. No.	Particulars	Amount (₹)
(i)	Income from Salary (Computed)	2,22,000
(ii)	Income from House Property	
	- House in Delhi	22,000
	- House in Chennai	(-) 2,60,000
	- House in Mumbai (self-occupied)	(-) 20,000

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(iii)	Profit and gains from business or profession	
	- Textile business	18,000
	- Cosmetics business	(-) 22,000
	- Speculative business- 1	(-) 74,000
	- Speculative business-2	46,000
(iv)	Capital gains	
	Short term capital loss from sale of property	(-) 16,000
	Long term capital gains from sale of property	15,400
(v)	Income from other sources (Computed)	
	- Income from betting	34,000
	- Income from card games	46,000
	- Loss on maintenance of race horses	(-)14,600

Determine the gross total income of Mr. X for the assessment year 2021-22 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC (PYP 5 Marks, July'21)

Answer 3

(a) Computation of Gross Total Income of Mr. X for A.Y. 2021-22

Particulars	Amount	Amount
Salaries		
Income from salary (computed)	2,22,000	
Less: Set-off of loss from house property of ₹ 2,58,000 to the extent of ₹ 2 lakhs by virtue of section 71(3A)	2,00,000	22,000
Income from house property		
- House in Delhi	22,000	
- House in Chennai	(2,60,000)	
- House in Mumbai (self-occupied)	(20,000)	
	(2,58,000)	
Loss upto ₹ 2 lakhs can be set off against income from salary. Balance loss of ₹ 58,000 from house property has to be carried forward to A.Y.2022-23.		
Profits and gains from business or profession		
Profits from Speculative business - 2	46,000	
Less: Loss of ₹ 74,000 from speculation business - 1 set off to the extent of profits of ₹ 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Hence, the balance loss of ₹ 28,000 from speculative business has to be carried forward to A.Y.2022-23.	(46,000)	-
Profits from textile business	18,000	
Less: Loss from cosmetic business of ₹ 22,000 set off against profits from textile business to the extent of ₹ 18,000 as per	(18,000)	-

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Paper 3 - Taxation

section 70(1).		
Balance loss of ₹ 4,000 from cosmetic business has to be carried forward to A.Y.2022-23, since the same cannot be set-off against salary income.		
Capital Gains	15,400	
Long term capital gain from sale of property		
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ₹ 16,000 set off against long- term capital gains to the extent of ₹ 15,400 as per section 74(1).	(15,400)	-
Balance short term capital loss of ₹ 600 has to be carry forward to A.Y.2022-23		
Income from Other Sources		
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	
Loss on activity of owning and maintenance of race horses [Loss incurred on activity of owning and maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss of ₹ 14,600 has to be carried forward to A.Y.2022-23]	Nil	
Gross Total Income		80,000 1,02,000

Question 4

Mr. Rajesh, a resident individual, furnished the following information in respect of income and loss earned by him for the F.Y. 2021-22

Particulars	Amount (₹)
Income from Salary	3,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale	(1,15,000)
Loss from let out property in Delhi	(75,000)
Interest on self-acquired property in Mumbai	(50,000)
Winnings from lottery tickets	40,000
Cost of acquisition of lottery tickets	10,000
Profit and gains from manufacturing business (after deducting normal depreciation of ₹ 10,000 and additional depreciation of ₹ 4,000)	96,000
Long term capital gains on sale of house property	1,40,000

The other details of brought forward losses and unabsorbed depreciation pertaining to A.Y. 2021-22 are as follow:

Brought forward business loss from manufacturing business	(35,000)
Unabsorbed normal depreciation	(10,000)

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Brought forward loss from the activity of owning and maintaining the race horses	(50,000)
---	-----------------

Compute the Gross total income of Mr. Rajesh for the Assessment Year 2022-23 and the amount of loss, if any, that can be carried forward if he wants to opt for the provisions of section 115BAC for the first time. (RTP May '22)

Answer 4

Computation of gross total income of Mr. Rajesh for A.Y. 2022-23

Particulars	Amount (₹)	Amount (₹)
Income from Salary	3,40,000	
Less: Loss under the head "Income from house property" [Loss from house property is not allowed to be set off with any other head of income since Mr. Rajesh is opting for section 115BAC]	-	3,40,000
Income from house property		
Self-occupied property [Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Rajesh is opting for section 115BAC]	-	
Loss from let out property [Carried forward to A.Y. 2023-24]	(75,000)	-
Profit and gains from business or profession		
Profit and gains from manufacturing business	96,000	
Add: Additional depreciation not allowable in case of section 115BAC	4,000	
	1,00,000	
Less: Brought forward loss from manufacturing business	35,000	
Less: Unabsorbed normal depreciation	10,000	55,000
Capital Gains		
Long term capital gains on sale of house property	1,40,000	
Less: long term capital loss on sale of shares on which STT is paid can also be set-off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	(1,15,000)	25,000
Income from Other Sources)	
Winnings from lottery tickets		40,000
Gross Total Income		4,60,000

Losses to be carried forward to A.Y. 2023-24

Particulars	Amount (₹)
Loss from let out property in Delhi	75,000
Loss from the activity of owning and maintaining the race horses	50,000

Notes -

- As per section 74A(3), loss from the activity of owning and maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horse.
- As per section 58, no expenditure is allowed from the lottery winnings.

Question 5

Mr. Kabir, a resident individual aged 45 years, furnishes the following particulars of his income and other details for the previous year 2021-22:

Particulars	Amount (₹)
Income from tea business	5,00,000

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Losses from sugar business	4,00,000
Dividend from Indian company carrying on agricultural operations (gross)	1,00,000
Agricultural income	55,000
Salary received as a partner from a partnership firm. The same was allowed to the firm.	4,50,000
Net annual value of house property	4,20,000
Loss from gambling	1,00,000
Short term capital gains on sale of land	75,000
Loss on sale of shares listed in BSE. Shares were held for 15 months and STT paid on sale and acquisition	3,00,000
Life insurance premium paid (10% of the capital sum assured)	80,000
Bank interest on Fixed deposit (gross)	55,000
Interest on saving bank account	13,000

The other details of brought forward losses pertaining to A.Y. 2021-22 are as follow:

Particulars	Amount (₹)
Brought forward business loss from sugar business	1,00,000
Brought forward short term capital loss	45,000
Brought forward loss from house property	3,00,000
Brought forward loss from maintenance of race horses	60,000

Compute the total income of Mr. Kabir for the Assessment Year 2022-23 and the amount of loss, if any, that can be carried forward, if he does not opt for section 115BAC. (RTP Nov'22)

Answer 5

Computation of total income of Mr. Kabir for A.Y. 2022-23

Particulars	Amount (₹)	Amount (₹)
Income from house property		
Net annual value	4,20,000	
Less: Deduction under section 24 (30% of ₹ 4,20,000)	1,26,000	
Less: Brought forward loss of ₹ 3 lakhs from house property set off to the extent of ₹ 2,94,000	2,94,000	
	2,94,000	-
Profit and gains from business or profession		
Income from tea business (40% is business income)	2,00,000	
Salary received as partner from a partnership firm is taxable under the head "Profits and gains from business or profession"	4,50,000	
	6,50,000	
Less: Losses from sugar business	4,00,000	
	2,50,000	
Less: Brought forward business loss from sugar business	1,00,000	1,50,000
Capital Gains		
Short term capital gains on sale of land	75,000	
Less: Brought forward short term capital loss	45,000	30,000
Income from Other Sources		
Dividend from Indian company	1,00,000	

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Agricultural income (exempt)	-	
Bank interest on Fixed deposit	55,000	
Interest on saving bank account	13,000	1,68,000
Gross Total Income		3,48,000
Less: Deduction under section 80C (life insurance premium paid)	80,000	
Less: Interest on saving bank account under section 80TTA, to the extent of	10,00	90,000
Total Income	0	2,58,000

Losses to be carried forward to A.Y. 2023-24

Particulars	Amount (₹)
Loss from house property of A.Y. 2021-22	6,000
Loss from maintenance of race horses of A.Y. 2021-22	60,000
Long term capital loss on sale of STT paid listed shares	3,00,000

Notes –

- 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax.
- Agricultural income is exempt under section 10(1).
- Loss from gambling can neither be set off against any other income, nor can be carried forward.
- Long term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set off against long term capital gain only. Since there is no long term capital gains in A.Y. 2022-23, it has to be carried forward for set-off against long term capital gains, if any, during A.Y. 2023-24.
- As per section 74A(3), loss from maintenance of race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. Since there is no income from the activity of owning and maintaining race horses in A.Y. 2022-23, it has to be set off against the income from the activity of owning and maintaining race horses, if any, in A.Y. 2023 -24.

Question 6

Mr. Prakash furnishes the following information for the financial year 2020-21.

Particulars	₹
Loss from speculation business-X	85,000
Profit from speculation business-Y	45,000
Interest on borrowings in respect of self-occupied house property	3,18,000
Income from let out house property	1,20,000
Presumptive Income from trading and manufacturing business under section 44AD	1,00,000
Salary from XYZ (P) Ltd.	5,25,000
Interest on PPF deposit	65,000
Long term capital gain on sale of Vacant site	1,25,000
Short term capital loss on sale of Jewellery	65,000
Investment in tax saver deposit on 31-03-21	60,000
Brought forward loss of business of assessment year 2015-16	1,00,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G (payment made via credit card)	60,000

Compute total income of Mr. Prakash for the assessment year 2021-22 also show the loss, eligible to be carried forward. Assume that he does not opt for section 115BAC. (RTP May '21)

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Answer 6

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

Particulars	₹	₹
Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 16(ia)	50,000	
Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]	4,75,000	
	20,000	4,55,000
Income from house property		
Income from let out house property	1,20,000	
Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings	2,00,000	
	(80,000)	
Less: Amount set-off against other heads of income	(80,000)	
Profits and gains from business or profession		
Profit from speculation business Y	45,000	
Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	
Presumptive Income from trading and manufacturing business	1,00,000	Nil
Less: Brought forward business loss of A.Y. 2015-16 set-off since the period of eight assessment years has not expired	(1,00,000)	Nil
Capital Gains		
Long term capital gain on sale of vacant site	1,25,000	
Less: Short term capital loss on sale of jewellery	65,000	
	60,000	
Less: Loss from house property to be set-off to the extent of LTCG (It is more beneficial for Mr. Prakash to first set-off the loss from house property against the long-term capital gains, since it is taxable @20%)	60,000	Nil
Income from Other Sources		
Interest on PPF deposit	65,000	
Less: Exempt	65,000	Nil
Gross Total Income		4,55,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2021	60,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 60,000 to be first restricted to ₹ 39,500, being 10% of adjusted total income of ₹ 3,95,000 (₹ 4,55,000 - ₹ 60,000). Thereafter, deduction would be computed at 50% of ₹ 39,500.	19,750	79,750
Total Income		3,75,250
Losses to be carried forward to A.Y.2022-23		
Particulars		₹

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Loss from speculation business X (₹ 85,000 - ₹ 45,000)	40,000
Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year.	

Question 7

Mr. Raghav is a chartered accountant and his income from profession for the year 2018-19 is ₹ 15,00,000. He provides you with the following information for the year 2018-19.

Particulars	₹
Income of minor son Rahul from company deposit	1,75,000
Income of minor daughter Riya (professional dancer) from her dance performances	20,00,000
Interest from Canara bank received by Riya on fixed deposit made in 2015 out of income earned from her dance performances	20,000
Gift received by Riya from friends of Mr. Raghav on winning National award	45,000
Loss from house property (computed)	2,50,000
Short term capital loss	6,00,000
Long term capital gain under section 112	4,00,000
Short term capital loss under section 111A	10,00,000

Mr. Raghav income before considering clubbing provisions is higher than that of his wife. Compute the Total Income of Mr. Raghav for Assessment Year 2019-20 and the losses to be carried forward assuming that he files his income tax returns every year before due date.(RTP May '20)

Answer 7

Computation of Total Income of Mr. Raghav for A.Y. 2019-20

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from chartered accountancy profession		15,00,000	
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		2,00,000	13,00,000
Capital gains			
Long term capital gain under section 112		4,00,000	
Less: Short term capital loss set off against long-term capital gain as per section 74		(4,00,000)	Nil
Income from other sources			
Income of minor son Rahul			
Income from company deposit includible in the hands of Mr. Raghav as per section 64(1A)	1,75,000		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	1,73,500	
Income of minor daughter Riya			
- Income of ₹ 20,00,000 of minor daughter Riya (professional dancer) not includible in the	Nil		

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hands of parent, since such income is earned on account of her special skills			
- Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills	20,000		
- Gift of ₹ 45,000 received by her from friends of Mr. Raghav is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed ₹ 50,000	Nil		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	18,500	1,92,000
Total Income			14,92,000

Losses to be carried forward to A.Y.2020-21

Particulars	₹
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A	10,00,000
Short term capital loss (other than above) [₹ 6,00,000 – ₹ 4,00,000]	2,00,000

Note – Short-term capital loss under section 111A can also be set-off against long-term capital gains under section 112. In such a case, the losses to be carried forward to A.Y.2020-21 would be as under –

Particulars	₹
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A [₹ 10,00,000 – ₹ 4,00,000]	6,00,000
Short term capital loss (other than above)	6,00,000

Question 8

Ms. Aarti, a resident individual, provides the following information of her income/losses for the year ended on 31st March, 2023:

S. No.	Particulars	(₹)
1.	Income from salary (Computed)	8,20,000
2.	Income from house property (let out) (Net Annual Value)	1,20,000
3.	Share of profit from firm in which she is partner	48,000
4.	Loss from specified business covered under section 35AD	67,000
5.	Income from textile business before adjusting the following items:	3,30,000
	(a) Current year depreciation	53,000
	(b) Unabsorbed depreciation of earlier year	1,85,000
	(c) Brought forward loss of textile business of the A.Y. 2020-21	1,90,000
6.	Long-term capital gain on sale of debentures (unlisted)	1,50,000
7.	Long-term capital loss on sale of equity shares (STT not paid)	1,50,000
8.	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at	2,50,000

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	the time of acquisition and sale)	
9.	Dividend from units of UTI	1,15,000
10	Repayment towards housing loan taken from a scheduled bank. Out of this ₹ 3,28,000 was towards payment of interest and rest towards principal.	4,85,000

Compute the Gross Total Income of Ms. Aarti and ascertain the amount of loss that can be carried forward. Ms. Aarti has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961. She does not want to opt for 115BAC.(MTP 7 Marks April '23, RTP Nov'21)

Answer 8

Computation of gross total income of Ms. Aarti for the A.Y.2023-24

Particulars		₹	₹
Salary Income (computed)		8,20,000	6,20,000
Less: As per section 71(3A), loss from house property of ₹ 2,44,000 can be set-off, to the extent of		<u>2,00,000</u>	
Income from House Property			
Net Annual Value of House Property		1,20,000	
Less: Deduction u/s 24			
(a) 30% of NAV		36,000	
(b) Interest on housing loan		3,28,000	
Loss from house property		(2,44,000)	
Less: Loss eligible for set-off against salary income restricted to		2,00,000	
Loss to be carried forward to A.Y. 2024-25 for set-off against income from house property, if any, in that year.		(44,000)	
Profits and gains of business or profession			Nil
Share of profit from firm [Exempt u/s 10(2A)]		-	
Loss from specified business u/s 35AD ₹ 67,000 [can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2024-25]		-	
Income from textile business		3,30,000	
Less: Current year depreciation		53,000	
		2,77,000	
Less: Brought forward loss of textile business		1,90,000	
		87,000	
Less: Set-off of unabsorbed depreciation to the extent of ₹ 87,000 against business income		87,000	
Capital Gains			
Long-term capital gains on sale of listed equity shares (STT paid)		2,50,000	

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Less: Balance unabsorbed depreciation of ₹ 98,000 set-off	98,000	
Long-term capital gains on sale of listed equity shares [Tax is payable u/s 112A @10% on the amount exceeding ₹ 1,00,000]	1,52,000	1,52,000
Long-term capital gains on sale of debentures	1,50,000	
Less: Set-off of long-term capital loss on sale of equity shares (STT not paid) [Since long-term capital gain on sale of unlisted debentures are taxable @20% and long-term term capital gain on sale of listed shares in excess of ₹ 1,00,000 taxable @10%, it is beneficial to set-off long-term loss against LTCG on sale of debentures]	1,50,000	Nil
Income from Other Sources		
Dividend from units of UTI [Taxable in the hands of the unitholders]		1,15,000
Gross Total Income		8,87,000

Losses to be carried forward to A.Y.2024-25	₹
Losses from specified business [can be carried forward indefinitely for set-off against income from any specified business]	67,000
Loss from house property [can be carried forward upto 8 successive assessment years for set-off against income from house property]	44,000

Question 9

Mr. Gaurav, a resident individual, furnishes the following particulars of his income and other details for the previous year 2021-22:

	₹
Income from Salary (computed)	22,00,000
Business loss before providing current year depreciation (Business discontinued on 31.5.2021)	1,00,000
Current year depreciation	50,000
Interest from Fixed Deposit	10,15,000
Interest on loan in respect of self-occupied property	2,35,000
Income from specified business (Not eligible for deduction under section 35AD)	20,000

Brought forward losses (Pertaining to A.Y. 2021-22)

Unabsorbed depreciation	45,000
Loss from specified business (eligible for deduction under section 35AD)	20,000

You are required to compute his gross total income for the A.Y. 2022-23 in such a way that his tax liability is minimised. (MTP 4 Marks Sep'22)

Answer 9

Computation of gross total income of Mr. Gaurav for A.Y.2022-23

Particular	₹	₹
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s		
Income from Salary (Computed)	22,00,000	
Less: Loss from self-occupied house property (on account of interest deduction upto ₹ 2,00,000) [Loss from house property can be set-off against salary income as per section 71(1)]	2,00,000	20,00,000
Profits and gains from business and profession		
Income from specified business [not eligible for deduction u/s 35AD]	20,000	
Less: Set-off of brought forward loss from specified business [eligible for deduction u/s 35AD] allowable as per section 73A [Brought forward loss from specified business eligible for deduction u/s 35AD can be set-off against income from any specified business, whether or not the same is eligible for deduction u/s 35AD]	(20,000)	Nil
Income from Other Sources		
Interest from fixed deposit	10,15,000	
Less: Current year business loss set-off [Inter-head set-off is permissible by virtue of section 71(1). Hence, current year business loss can be set-off against interest income from fixed deposit]	1,00,000	
	9,15,000	
Less: Current year depreciation	50,000	
	8,65,000	
Less: Unabsorbed depreciation under section 32(2) [Can be set-off against any head of income other than Salaries]	45,000	
		8,20,000
Gross Total Income		28,20,000

Question 10

Mr. Suresh is Lawyer by profession and his income from profession for the year 2021-22 is ₹ 10,00,000. From the information given by him, you are required to compute his total income for A.Y. 2022-23 and the losses to be carried forward assuming that he files his income tax returns every year before due date.

Particulars	₹
Income of minor son Raj from company deposit	1,60,000
Income of minor daughter Rashmi (professional dancer) from her dance performances	15,00,000

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Interest from Canara bank received by Rashmi on deposit made out of income earned from her dance performances	15,000
Loss from house property (computed)	2,50,000
Short term capital loss	6,00,000
Long-term capital gain from equity shares under section 112A	1,20,000
Long term capital gain under section 112	3,00,000
Short term capital loss under section 111A	5,00,000

Assume that Mr. Suresh does not opt for the provisions of section 115BAC and his income before considering clubbing provisions is higher than that of his wife. (MTP 6 Marks March 22)

Answer 10

Computation of Total Income of Mr. Suresh for A.Y. 2022-23

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from profession		10,00,000	8,00,000
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		2,00,000	
Capital gains			
Long term capital gains on sale of equity shares under section 112A		1,20,000	
Long term capital gain under section 112		3,00,000	
Less: Short term capital loss set off against long- term capital gain as per section 74		(4,20,000)	Nil
Income from other sources			
Income of minor son Raj			
Income from company deposit includible in the hands of Mr. Suresh as per section 64(1A)	1,60,000		
Less: Exemption in respect of income of minor child u/s 10(32)		1,58,500	
	1,500	0	
Income of minor daughter Rashmi			
Income of ₹ 15,00,000 of minor daughter Rashmi (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A),	15,000		
since interest income arises out of deposit made and not on account of her special skills	Nil		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	13,500	1,72,000
Total Income			9,72,000

Losses to be carried forward to A.Y.2023-24

Particulars	₹
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A	5,00,000
Short term capital loss (other than above) [₹ 6,00,000 – ₹	1,80,000

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4,20,000]

Note – Short-term capital loss under section 111A can be set-off against long-term capital gains under section 112 & 112A. In such a case, the losses to be carried forward to A.Y.2023-24 would be as under –

Particulars	₹
Loss from house property [₹ 2,50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A [₹ 5,00,000 – ₹ 4,20,000]	80,000
Short term capital loss (other than above)	6,00,000

Question 11

Mr. Satish Sharma has derived the following income/loss, as computed below, for the previous year 2018-19:

Particulars	₹
Loss from let out house property	2,50,000
Loss from non-speculation business	3,20,000
Income from speculation business	12,45,000
Loss from specified business covered u/s 35AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from bettings (Gross)	90,000
Loss from card games	3,40,000

You are required to compute the total income of the assessee for the assessment year 2019 -20, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-7-2019. (MTP 5 Marks, Oct'19)

Answer 11

Computation of total income of Mr. Satish Sharma for the A.Y.2019-20

Particulars	₹	₹
Profits and gains of business or profession		
Income from speculation business	12,45,000	
Less: Set-off of loss from non-speculation business	3,20,000	
	9,25,000	
Less: Set-off of loss from house property, restricted to	2,00,000	7,25,000
Income from other sources		
Winnings from lotteries	1,50,000	
Winnings from bettings	90,000	2,40,000
Gross Total Income		9,65,000
Less: Deduction under Chapter VI-A		Nil
Total income		9,65,000

Losses to be carried forward to A.Y.2020-21:

Particulars	₹
Loss from house property (₹ 2,50,000 - ₹ 2,00,000)	50,000
As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. Balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year.	

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<p>Loss from specified business covered by section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. As per section 73A (2), if loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. Since the return has been filed before the due date, such loss can be carried forward.</p>	4,10,000
<p>Loss from card games Loss from card games can neither be set off against any other income, nor can it be carried forward.</p>	

Question 12

The following are the details relating to Mr. Rajesh, a resident Indian, relating to the year ended 31.03.2020

Particulars	Amount (₹Rs)
Short term capital gain	1,40,000
Loss from house property	2,20,000
Loss from speculative business	50,000
Loss from card games	20,000
Brought forward Long term capital loss of A.Y. 2015-16	86,000
Dividend from Shaba Ltd.	11,00,000
Loss from tea business	96,000

Mr. Rajesh's wife, Isha is employed with Shine Ltd., at a monthly salary of ₹25,000, where Mr. Rajesh holds 21% of the shares of the company. Isha is not adequately qualified for the post held by her in Shine Ltd. You are required to compute taxable income of Mr. Rajesh for the A.Y. 2020 -21. Ascertain the amount of losses which can be carried forward. (MTP 7 Marks, Oct'20, MTP 7 Marks Mar'18)

Answer 12

Computation of Taxable Income of Mr. Rajesh for the A.Y. 2020-21

Particulars	₹	₹
Salaries		
Isha's salary (₹25,000 x 12) [See Note 1]	3,00,000	
Less: Standard deduction under section 16(IA) up to ₹50,000	50,000	
	2,50,000	
Less: Loss from house property set off against salary income as per section 71(3A) [See Note 2]	2,00,000	50,000
Capital Gains		
Short term capital gain	1,40,000	
Less: Loss from tea business (₹ 96,000 x 40%) [See Note 3 & 4]	38,400	1,01,600
Income from Other Sources		
Dividend income [See Note 5]		11,00,000
Taxable Income		12,51,600

The following losses can be carried forward for subsequent assessment years:

(I) Loss from house property to be carried forward and set-off against	₹20,000
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income from house property	
(ii) Long-term capital loss of A.Y. 2015-16 can be carried forward and set-off against long-term capital gains	₹86,000
(iii) Loss from speculative business to be carried forward and set-off against income from speculative business	₹50,000

Notes:

- As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, M₹ Isha is not adequately qualified for the post and Mr. Rajesh has substantial interest in Shine Ltd by holding 21% of the shares of the Shine Ltd., the salary income of M₹ Isha to be included in Mr. Rajesh's income.
- As per section 71(3A), loss from house property can be set off against any other head of income to the extent of ₹2,00,000 only.
- 60% of the losses from tea business is treated as agricultural income and therefore exempt. Loss from an exempt source cannot be set off against profits from a taxable source.
- As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 38,400 set off against short term capital gains.
- Set off of losses is not permissible against such income.
As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.
- Loss from Card games can neither be set off against any other income, nor can it be carried forward.
- Loss of ₹50,000 from speculative business can be set-off only against the income from the speculative business. Hence, such loss has to be carried forward.
- As per section 74(1), brought forward Long-term capital loss can be set-off only against long- term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2021-22 for set-off against long-term capital gains.

Question 13

Compute the total income of Mr. Praveen (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2021. Also, show the items eligible for carry forward.

Particulars	₹
Income from salaries	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000
Income from speculation business	40,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000

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Long-term capital loss from sale of listed shares in recognized stock exchange	1,10,000
(STT paid at the time of acquisition and sale of shares)	
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	50,000

(MTP 7 Marks, April'21)

Answer 13

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

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	40,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	1,10,000	
	1,40,000	
Less: Loss from toy business set off	90,000	50,000
Income from other sources		
Income from betting		45,000
Gross total income		1,15,000
Less: Deduction under section 80C(life insurance premium paid)		20,000
Total income		95,000

Losses to be carried forward:

Particulars	₹
(1) Loss from house property (₹2,50,000 – ₹2,00,000)	50,000
(2) Loss from toy business (₹1,30,000 - ₹40,000 - ₹90,000)	Nil
(3) Loss from specified business covered by section 35AD	20,000

Notes:

- (i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 only.
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2029-30, in this case.
- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for set-off against profits of any specified business.

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- (iii) Business loss cannot be set off against salary income. However, business loss of ₹ 90,000 (₹1,30,000 – ₹ 40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 50,000.
- (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 life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹1,15,000 – ₹ 50,000 (LTCG) – ₹ 45,000 (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.

Question 14

Compute the gross total income of Mr. Farhan and show the items eligible for carry forward and the assessment years up to which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2021:

Particulars	Amount (₹)
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered under section 35AD	45,000
Income from salary (computed)	4,18,000
Loss from house property	2,20,000
Income from trading business	2,80,000
Long-term capital gain from sale of urban land	2,05,000
Long-term capital loss on sale of equity shares (STT not paid)	85,000
Long-term capital loss on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Short-term capital loss under section 111A	85,000

Following are the brought forward losses:

- Brought forward loss from speculative business MNO ₹ 18,000 relating to A.Y. 2017-18.
- Brought forward loss from trading business of ₹ 12,000 relating to A.Y. 2015-16. Unabsorbed depreciation ₹ 1,00,000 relating to A.Y. 2020-21

Assume Mr. Farhan has furnished his return of income on or before the due date specified under section 139(1) in all the above previous year (MTP 7 Marks, March'21)

Answer 14

Computation of Gross total income of Mr. Farhan for the A.Y.2021-22

Particulars	₹	₹
Salaries		
Income from Salary	4,18,000	
Less: Loss from house property set-off against salary	(2,00,000)	2,18,000
[As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income.]		
Profits and gains of business or profession		
Income from trading business	2,80,000	

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Less: Brought forward loss from trading business of A.Y. 2015-16 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	(12,000)	
Less: Unabsorbed depreciation	(1,00,000)	1,68,000
Income from speculative business BPO	25,000	
Less: Loss from speculative business MNO set-off as per section 73(1)	(12,000)	
Loss from speculative business MNO brought forward from A.Y.		
2017-18 as per section 73(2), can be set off to the extent of ₹ 13,000. Balance loss will be lapsed, since four years his expired	(13,000)	-
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: Long term capital loss on sale of shares (STT not paid) set- off as per section 71(3)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 71(3), since long-term capital arising on sale of such shares is taxable under section 112A	(1,10,000)	
Less: Short-term capital loss under section 111A as per section 71(2)	(10,000)	-
Gross Total Income		3,86,000

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

Particulars	₹
Loss from house property As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2029- 30, in this case.	20,000
Loss from specified business under section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	45,000
Short-term capital loss under section 111A Short-term capital loss under section 111A can be set-off against long term or short term capital gains. If it cannot be so set-off, it has to be carried forward to the next year for set-off against capital gains, if any, in that year. It can be carried forward for a maximum of eight assessment years, i.e., up to A.Y.2029- 30, in this case, as specified under section 74(1).	75,000

Question 15

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

(I)		(Amount in ₹)
	Income from salary	6,50,000

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Paper 3 - Taxation

(ii)	Income from House-I	55,000
(iii)	Loss from House-II (self-occupied property)	1,25,000
(iv)	Loss from House-III	190,000
(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 owning and maintenance of race horses	7,500
(xi)	Income from owning and maintenance of race bulls	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. (MTP 6 Marks, May'20)

Answer 15

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

Particulars	₹	₹
Salaries		
Income from salary	6,50,000	
Less: Loss from house property of ₹2,60,000, restricted to	2,00,000	
		4,50,000
Income from house property		
Income from House I	55,000	
Less: Loss from House II (self-occupied) 1,25,000		
Loss from House III 1,90,000	3,15,000	
	(2,60,000)	
Set-off of loss from house property against salary income, restricted to	2,00,000	
Loss to be carried forward to A.Y. 2021-22	(60,000)	
Profits and gains of business or profession		
Profit from cloth business	1,70,000	
Less: Loss from leather business	68,000	
		1,02,000
Capital Gains		
Short term capital loss in equity-oriented funds on which STT is paid ₹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 ₹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:

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

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

Question 16

Compute the total income of Mr. Pratap (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2019. Also, show the items eligible for carry forward.

Particulars	₹
Income from salaries	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000
Income from speculation business	40,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	50,000

(MTP 7 Marks, April'19 & Oct '18)

Answer 16

Computation of total income of Mr. Pratap for the A.Y.2019-20

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	<u>2,00,000</u>	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	<u>40,000</u>	Nil
Capital gains		

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Paper 3 - Taxation

Long-term capital gains from sale of urban land	2,50,000	
<i>Less:</i> Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	1,10,000	
<i>Less:</i> Loss from toy business set off	<u>90,000</u>	50,000
Income from other sources		
Income from betting		<u>45,000</u>
Gross total income		1,15,000
<i>Less:</i> Deduction under section 80C(life insurance premium paid)		<u>20,000</u>
Total income		<u>95,000</u>

Losses to be carried forward:

Particulars	₹
(1) Loss from House property (₹2,50,000 - ₹2,00,000)	50,000
(2) Loss from toy business(₹1,30,000 - ₹40,000 - ₹90,000)	Nil
(3) Loss from specified business covered by section 35AD	20,000

Notes:

- (i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 only.
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2027-28, in this case.
- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for set-off against profits of any specified business.
- (iii) Business loss cannot be set off against salary income. However, business loss of ₹ 90,000 (₹1,30,000 - ₹ 40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 50,000.
- (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 life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹1,15,000 - ₹ 50,000 (LTCG) - ₹ 45,000 (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.

Question 17

Compute the total income of Mr. Veer for the assessment year 2021-22 under proper heads from the following information furnished by him for the financial year 2020-21:

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Paper 3 - Taxation

Particulars	₹
Income from let out house property (computed)	3,50,000
Interest paid on housing loan for self-occupied property	2,00,000
Income from Textile business	5,75,000
Brought forward business loss of Assessment Year 2017-18	1,05,000
Short-term capital loss	70,000
Brought forward long-term loss from Assessment Year 2019-20	90,000
Long-term capital gain on sale of house	75,000
Interest on enhanced compensation from Government for acquisition of land in 2016	5,00,000
Dividend from ABC Ltd., Andhra Pradesh	15,000
Deposit made on 15.02.2021 in his Public Provident fund account	75,000
Loss from owning and maintaining race horse of Assessment Year 2020-21	20,000
Loss from Gambling	8,000

Also state the loss that can be carried forward to A.Y. 2022-23. Mr. Veer filed the return of income for assessment year 2017-18 after the expiry of due date for filing the return. (MTP 7 Marks, Nov'21)

Answer 17

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

Particulars	₹	₹
Income from house property		
Income from let out house property	3,50,000	
Less: Set-off of loss from self-occupied house property by virtue of section 70(1) [Whole of interest i.e., ₹ 2,00,000 allowable as deduction, since it is within the permissible limit applicable to self-occupied property; The said amount represents loss from self-occupied property]	<u>(2,00,000)</u>	1,50,000
Profits and gains of business or profession		
Income from textile business	5,75,000	
[As per section 80, brought forward business loss of ₹ 1,05,000 of assessment year 2017-18 cannot be set-off, since return of income for that year was filed after the expiry of due date specified under section 139(1)]	<u>Nil</u>	5,75,000
Capital Gains		
Long-term capital gains on sale of house	75,000	
Less: Short-term capital loss can be set-off against long-term capital gains [section 70(2)]	<u>70,000</u>	
	5,000	
Less: Brought forward long-term capital loss of ₹ 90,000 from A.Y. 2019-20, set-off to the extent of ₹ 5,000	<u>5,000</u>	Nil
Income from Other Sources		

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Paper 3 - Taxation

Interest on enhanced compensation from Government	5,00,000	
Less: Deduction @50%	<u>2,50,000</u>	
	2,50,000	
Dividend from ABC Ltd.	<u>15,000</u>	<u>2,65,000</u>
Gross Total Income		9,90,000
Less: Deduction under section 80C – Deposit in PPF		<u>75,000</u>
Total Income		9,15,000
Losses to be carried forward to A.Y.2022-23		
Long-term capital loss of A.Y. 2019-20 (₹ 90,000 – ₹ 5,000) to be set-off against long-term capital gains, if any, in that year	85,000	
Loss from owning and maintaining racehorse of the A.Y. 2020-21 to be set-off against income, if any, from owning and maintaining race horses in that year.	20,000	
Loss from gambling (it can neither be set-off against any income during the previous year nor can it be carried forward for set-off against any income in the subsequent assessment years).		

Question 18

Compute total income of Mr. Mihir for the assessment year 2022-23 from the following information furnished by him for the financial year 2021-22.

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	80,000
Loss from speculation business-X	90,000
Profit from speculation business-Y	80,000
Income from trading and manufacturing business @ 8%	5,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	1,10,000
Short term capital loss on sale of Jewellery	1,90,000
Investment in tax saver deposit on 31-03-2022	50,000
Brought forward loss of business of assessment year 2018-19	7,50,000
Donation to a charitable trust recognized under section 12AB and approved under section 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2012	4,00,000

(MTP 7 Marks Oct'22)

Answer 18

Computation of total income of Mr. Mihir for A.Y.2022-23

Particulars	₹	₹
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Paper 3 - Taxation

Salaries		4,70,000
Profits and gains from business or profession		
Profit from speculation business Y	80,000	
Less: Loss of ₹ 90,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(80,000)	
Loss of ₹ 10,000 from speculation business X to be carried forward to A.Y. 2023-24 for set-off against profits from speculation business.		
Income from trading and manufacturing business @8%	5,50,000	
Less: Brought forward business loss of A.Y. 2018-19 set-off since a period of eight assessment years has not expired. Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2023-24	(5,50,000)	Nil
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2021-22 since enhanced compensation is taxable on receipt basis]	4,00,000	
Long term capital gain on sale of vacant site	1,10,000	
Less: Short term capital loss on sale of jewellery	(1,90,000)	
Less: Loss from house property can be set-off to the extent of ₹ 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @20%, it would be beneficial to set-off the loss from house property against LTCG]. Balance loss of 80,000 to be carried forward to A.Y. 2023-24.	3,20,000 (2,00,000)	1,20,000
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt under section 10(11)	(95,000)	Nil
Gross Total Income		5,90,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2022	50,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 42,000, being 10% of adjusted total income of ₹ 4,20,000 i.e., [₹ 5,90,000 – ₹ 1,20,000 – ₹ 50,000]. Thereafter, deduction would be computed at 50% of ₹ 42,000.	21,000	71,000
Total Income		5,19,000

Question 19

From following information furnished for the year ended 31-03-2018, compute the total income of Mr. Arihant for A.Y. 2018-19 and show the items eligible for carry forward and upto which assessment year:

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Paper 3 - Taxation

Particulars	Amount (₹)
Long-term capital gain from sale of urban land	2,30,000
Long-term capital loss on sale of shares (STT not paid)	85,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid both at the time of acquisition and sale)	1,02,000
Loss from speculative business X	25,000
Income from speculative business Y	15,000
Loss from specified business covered under section 35AD	40,000
Income from salary	3,50,000
Loss from house property	2,20,000
Income from trading business	75,000

Following are details of unabsorbed depreciation and the brought forward losses:

- (1) Unabsorbed depreciation of ₹ 11,000 pertaining to A.Y 2017-18.
- (2) Losses from owning and maintaining of race horses pertaining to A.Y. 2017-18 ₹ 5,000.
- (3) Brought forward loss from trading business ₹ 8,000 relating to A.Y.2014-15.(RTP Nov '18 & May '19)

Answer 19

Computation of total income of Mr. Arihant for the A.Y. 2018-19

Particulars	₹	₹
Salaries		
Income from Salary	3,50,000	
Less: Loss from house property set-off against salary income as per section 71(3A), restricted to	2,00,000	1,50,000
Profits and gains of business or profession		
Income from trading business	75,000	
Less: Brought forward loss from trading business of A.Y. 2014-15 can be set off against current year income from trading business, as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted has not expired.	8,000	
	67,000	
Less: Unabsorbed depreciation	11,000	56,000
Income from speculative business Y	15,000	
Less: Loss from speculative business X to be set-off as per section 73(1)	15,000	
Loss from speculative business X to be carried forward to A.Y.2019-20 as per section 73(2)	10,000	
Capital Gains		
Long term capital gain on sale of urban land	2,30,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 70(3)]	85,000	1,45,000
Long-term capital loss of ₹ 1,02,000 on sale of listed shares on which STT is paid both at the time of acquisition and sale cannot be set-off against long-term capital gain on sale of urban land since loss from an exempt source cannot be set-off against profit from a taxable source.		
Total Income		3,51,000

Items eligible for carried forward to A.Y.2019-20

Particulars	₹

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Paper 3 - Taxation

Loss from House Property As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.	20,000
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2026-27, in this case.	
Loss from speculative business X Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y. 2022-23, in this case, as specified under section 73(4).	10,000
Loss from specified business under section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	40,000
Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2021-22, in this case as specified under section 74A(3).	5,000

Question 20

Mr. Krishan, residing in Indore, provides the following information for the financial year 2019-20:

Particulars	₹
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
Current year depreciation of textile business not adjusted in the income given above.	5,000
Unabsorbed depreciation of assessment year 2018-19	10,000
Speculation business loss of assessment year 2019-20	30,000

Compute the Gross Total Income of Mr. Krishan for the Assessment year 2020-21 and also state the losses eligible for carry forward and period up to which such losses can be carried forward.(RTP Nov '20)

Answer 20

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

Particulars	₹	₹
Profits and gains of business or profession		

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Paper 3 - Taxation

Income from Textile business	4,60,000	
Less: Current year depreciation allowable under section 32(1)	5,000	
	4,55,000	
Less: Unabsorbed depreciation brought forward from A.Y.2018-19 as per section 32(2)	10,000	4,45,000
Income from speculation business		
Current year income from speculation business	25,000	
Less: Speculation business loss for A.Y. 2019-20 set-off as per the provisions of section 73(2)	30,000	
Speculation business loss to be carried forward	(5,000)	Nil
Gross Total Income		4,45,000

Losses eligible for carry forward to A.Y.2021-22

	Particulars	₹
(1)	Loss from speculation business to be carried forward as per section 73 Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y.2023-24	5,000
(2)	Loss on maintenance of race horses to be carried forward as per section 74A(3) Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y. 2024-25	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

Question 21

Compute total income of Mr. Mathur for the assessment year 2020-21 from the following information furnished by him for the financial year 2019-20.

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	60,000
Loss from speculation business-X	80,000
Profit from speculation business-Y	40,000
Income from trading and manufacturing business @ 8%	3,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	2,10,000
Short term capital loss on sale of Jewellery	1,50,000
Investment in tax saver deposit on 31-03-2020	60,000
Brought forward loss of business of assessment year 2014-15	5,50,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the	3,00,000

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Paper 3 - Taxation

year 2006

(RTP Nov '19)

Answer 21

Computation of total income of Mr. Mathur for A.Y.2020-21

Particulars	₹	₹
Salaries		4,70,000
Profits and gains from business or profession		
Profit from speculation business Y	40,000	
Less: Loss of ₹ 80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(40,000)	
Loss of ₹ 40,000 from speculation business X to be carried forward to A.Y. 2021-22 for set-off against profits from speculation business.		
Income from trading and manufacturing business @8%	3,50,000	
Less: Brought forward business loss of A.Y. 2014-15 set-off since a period of eight assessment years has not expired.	(3,50,000)	Nil
Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2021-22		
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2019-20 since enhanced compensation is taxable on receipt basis]	3,00,000	
Long term capital gain on sale of vacant site	2,10,000	
Less: Short term capital loss on sale of jewellery	(1,50,000)	
	3,60,000	
Less: Loss from house property can be set-off to the extent of ₹ 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @20%, it would be beneficial to set-off the loss from house property against LTCG]. Balance loss of ₹ 60,000 to be carried forward to A.Y. 2021-22.	(2,00,000)	1,60,000
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt under section 10(11)	(95,000)	Nil
Gross Total Income		6,30,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2020	60,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 41,000, being 10% of adjusted total income of ₹ 4,10,000 i.e., [₹ 6,30,000 – ₹ 1,60,000 – ₹ 60,000]. Thereafter, deduction would be computed at 50% of ₹ 41,000.	20,500	80,500
Total Income		5,49,500

Question 22

Mr. Ram, a resident Individual aged 65 years, submits the following details of his income for the assessment year 2023-24:

Particulars	

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rs	
Loss from speculative business A	30,000
Income from speculative business B	1,50,000
Loss from specified business covered under section 35AD	20,000
Income from Salary (computed)	2,00,000
Loss from let out house property	1,90,000
Loss from cloth business	80,000
Long-term capital gain from sale of urban land	3,00,000
Long-term capital loss on sale of shares (STT not paid)	1,00,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,50,000
Income from betting (Gross)	80,000
Loss from gambling	8,000
Interest on saving bank deposits	12,000
Interest on fixed deposits with banks	40,000

Compute the total income of Mr. Ram and show the items eligible for carry forward, assuming that he does not opt for the provisions of section 115BAC. (RTP May '23)

Answer 22

Computation of total income of Mr. Ram for the A.Y. 2023-24

Particulars	Amount (₹)	Amount (₹)
Salaries		
Income from Salary	2,00,000	
Less: Loss from house property set-off against salary	1,90,000	
		10,000
Profits and gains from business or profession		
Income from speculative business B	1,50,000	
Less: Loss of ₹ 30,000 from speculative business A	30,000	
Less: Loss from cloth business [Loss from non- speculative business can be set off against profits from speculative business]	80,000	
		40,000
Capital Gains		
Long-term capital gain from sale of urban land	3,00,000	
Less: Long-term capital loss on sale of shares (STT not paid)	1,00,000	
Less: Long-term capital loss on sale of listed shares in recognizes stock exchange (STT paid at the time of acquisition and sale of	1,50,000	

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shares)		
		50,000
Income from Other Sources		
Income from betting	80,000	
Interest on savings bank deposits	12,000	
Interest on fixed deposits with banks	40,000	1,32,000
Gross Total Income		2,32,000
Less: Deduction under section 80TTB (Maximum being ₹ 50,000, since Mr. Ram is a senior citizen)		50,000
Total Income		1,82,000

Notes:

- (i) Loss from specified business covered under section 35AD can be set off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss of ₹ 20,000 has to be carried forward for set-off against profits and gains of any specified business in the following year.
- (ii) Loss from gambling can neither be set off against any other income, nor can be carried forward.

Question 23

Following are the details of incomes/losses of Mr. Rishi for the F.Y. 2018-19:

(Figures in brackets represents losses)	
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
- from rented house property X	1,20,000
- from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
- business P	2,30,000
- business Q	(12,000)
- business R (speculative business)	15,000
- business T (speculative business)	(25,000)
Taxable Income from other sources :	
- from card games	16,000
- from owning & maintenance of race horses	(7,000)
- interest on securities	5,000

You are required to determine the Gross total income of Mr. Rishi for Assessment Year 2019-20. (PYP 5 Marks, Nov'19, MTP 5 Marks , Sep '23)

Answer 23

Computation of gross total income of Mr. Rishi for the A.Y.2019-20

Particulars		
Salary Income (computed)	3,60,000	

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Less: Set-off of loss from house property ` 2,20,000, restricted to	2,00,000	1,60,000
Income from House Property		
Income from Property X	1,20,000	
Less: Loss from Property Y [inter-source set-off is permitted under section 70(1)]	3,40,000	
Loss from house property	2,20,000	
Less: Loss eligible for set-off against salary income as per section 71(3A), restricted to	2,00,000	
Loss to be carried forward to A.Y. 2020-21 as per section 71B, for set-off against income from house property, if any, in that year.	(20,000)	
Profits and gains of business or profession		
Income from business P	2,30,000	
Less: Loss from business Q (inter-source set-off is permitted)	12,000	2,18,000
Income from speculation business R	15,000	
Less: Loss from speculation business T [can be set-off only against income from speculation business as per section 73(1)]	25,000	
Loss to be carried forward to A.Y. 2020-21 for set-off against speculative business income of that year by virtue of section 73(2).	(10,000)	
Income from Other Sources		21,00
Income from card games	16,000	
Interest on securities	5,000	
Loss from owning & maintaining race horses [Not allowed to be set-off against any other income under this head or under any other head. Thus, such loss has to be carried forward to A.Y. 2020-21 for set-off against income, if any, from owning and maintaining race horses in that year by virtue of section 74A(3)]	(7,000)	
Gross Total Income		3,99,000

Note: Loss from house property of ` 2 lakh can also be set-off against business income instead of salary income. In such a case, salary income would be ` 3,60,000 and business income would be ` 18,000. Gross total income would remain the same. Any other permutation for set-off of house property (other than income from card games), including partial set-off against one head and the remaining against another, is also possible.

Question 24

Ms. Pooja a resident individual provides the following information of her income/losses for the year ended on 31st March, 2020:

S. No.	Particulars	(`)
1	Income from salary (Computed)	2,20,000

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2	Income from House Property (let out) (Net Annual Value)	1,50,000
3	Share of loss from firm in which she is partner	10,000
4	Loss from specified business covered under section 35AD	20,000
5	Income from textile business before adjusting the following items:	3,00,000
	(a) Current year depreciation	60,000
	(b) Unabsorbed depreciation of earlier year	2,25,000
	(c) Brought forward loss of textile business of the A.Y. 2018-19	90,000
6	Long-term capital gain on sale of debentures	75,000
7	Long-term capital loss on sale of equity shares (STT not paid)	1,00,000
8	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	1,50,000
9	Dividend from units of UTI	5,000

During the previous year 2019-20, Ms. Pooja has repaid ` 5,25,000 towards housing loan from a scheduled bank. Out of this ` 3,16,000 was towards payment of interest and rest towards principal.

Compute the gross total income of Ms. Pooja and ascertain the amount of loss that can be carried forward. Ms. Pooja has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961. (PYP 8 Marks, Nov'20)

Answer 24

Computation of gross total income of Ms. Pooja for the A.Y.2020-21

Particulars			
Salary Income (computed)		2,20,000	
Less: As per section 71(3A), loss from house property of ` 2,11,000 can be set-off, to the extent of		2,00,000	20,000
Income from House Property			
Net Annual Value of House Property		1,50,000	
Less: Deduction u/s 24			
(a) 30% of NAV	45,000		
(b) Interest on housing loan	3,16,000	3,61,000	
Loss from house property		(2,11,000)	
Less: Loss eligible for set-off against salary income restricted to		2,00,000	
Loss to be carried forward to A.Y. 2021-22 for set-off against income from house property, if any, in that year.		(11,000)	
Profits and gains of business or profession			

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Share of loss from firm [loss from exempt source cannot be set-off against profit from taxable source. Hence such loss can neither be set-off nor be carried forward]	-	
Loss from specified business u/s 35AD ₹ 20,000 [Can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2021-22]	-	
Income from textile business	3,00,000	
Less: Current year depreciation	60,000	
	2,40,000	
Less: Brought forward loss of textile business	90,000	
	1,50,000	
Less: Unabsorbed depreciation (₹ 2,25,000) set-off to the extent of	1,50,000	Nil
Capital Gains		
Long-term capital gains on sale of debentures	75,000	
Less: Set-off of Long-term capital loss on sale of equity shares (STT not paid)	75,000	
	Nil	
Long-term capital gains on sale of listed equity shares (STT paid)	1,50,000	
Less: Set-off of balance long-term capital loss on sale of equity shares (STT not paid) [₹ 1,00,000 - ₹ 75,000]	25,000	
	1,25,000	
Less: Set-off of balance unabsorbed depreciation [₹ 2,25,000 - ₹ 1,50,000 s/o against business income]	75,000	
Long-term capital gains on sale of listed equity shares		50,000
Income from Other Sources		
Dividend from units of UTI [Exempt] (taxable as per amendment)		5,000
Gross Total Income		75,000

Losses to be carried forward to A.Y.2021-22		
(i)	Losses from specified business [can be carried forward indefinitely for set-off against income from any specified business]	20,000
(ii)	Loss from house property [can be carried forward upto 8 successive assessment years for set-off against income from house property]	11,000

Question 25

Mr. Harsh furnishes the following details for the year ended on 31-03-2022:

PARTICULARS	AMOUNT (₹)
Salary received from partnership firm (the same was allowed to the firm)	8,50,000

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Loss on sale of shares listed in stock exchange held for 18 months and the STT paid on the sale and acquisition	6,00,000
Long term capital gain on sale of land	5,00,000
Brought forward business loss of assessment year 2014-15	6,00,000
Loss of the specified business covered in Section 35AD	3,50,000
Loss from house property	2,50,000
Income from betting (gross)	50,000
Loss from card games	35,000

Compute the total income and show the item eligible for carry forward of Mr. Harsh for the assessment year 2022-23. (PYP 4 Marks May'22)

Answer 25

Computation of total income of Mr. Harsh for the A.Y.2022-23

Particulars	₹	₹
Profits and gains from business and profession		
Salary received from partnership firm (would be fully taxable in the hands of Mr. Harsh as business income, since the same was allowed to the firm as deduction)	8,50,000	
Less: Loss from house property ₹ 2,50,000 (can be set-off against income from any other head only to the extent of ₹ 2 lakh)	2,00,000	
	6,50,000	
Less: Set-off of brought forward business loss of A.Y. 2014-15 (since the eight year time period for set-off has not expired)	6,00,000	
Capital Gains		50,000
Long-term capital gain on sale of land	5,00,000	
Less: Set-off of long-term capital losses (since held for 18 months i.e., more than 12 months) on sale of STT paid listed shares [Such set-off is permissible since it is a loss from a source of income taxable u/s 112A]	5,00,000	-
Income from Other Sources		
Income from betting (gross) [No Loss can be set off against income from betting]		50,000
Loss of ₹ 35,000 from card games can neither be set-off nor be carried forward		-
Total Income		1,00,000
Losses to be carried forward to A.Y. 2023-24		₹
Loss from house property (₹ 2,50,000 – ₹ 2,00,000)		50,000
Loss from specified business covered u/s 35AD [Entire loss is to be carried forward, since there is no income from any specified business for A.Y.2022-23. Such loss has to be carried forward for set-off against income from any specified business in A.Y.2023-24]		3,50,000
Long-term capital loss on sale of listed shares (STT paid) [₹ 6,00,000 – ₹ 5,00,000]		1,00,000

Paper 3 - Taxation

Question 26

Mr. X a resident individual submits the following information, relevant to the previous year ending March 31, 2021:

S. No.	Particulars	Amount (₹)
(i)	Income from Salary (Computed)	2,22,000
(ii)	Income from House Property - House in Delhi - House in Chennai - House in Mumbai (self-occupied)	22,000 (-) 2,60,000 (-) 20,000
(iii)	Profit and gains from business or profession - Textile business - Cosmetics business - Speculative business- 1 - Speculative business-2	18,000 (-) 22,000 (-) 74,000 46,000
(iv)	Capital gains Short term capital loss from sale of property Long term capital gains from sale of property	(-) 16,000 15,400
(v)	Income from other sources (Computed) - Income from betting - Income from card games - Loss on maintenance of race horses	34,000 46,000 (-)14,600

Determine the gross total income of Mr. X for the assessment year 2021-22 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC (PYP 5 Marks, July'21)

Answer 26

(b) **Computation of Gross Total Income of Mr. X for A.Y. 2021-22**

Particulars	Amount	Amount
Salaries		
Income from salary (computed)	2,22,000	
Less: Set-off of loss from house property of ₹ 2,58,000 to the extent of ₹ 2 lakhs by virtue of section 71(3A)	2,00,000	22,000

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Income from house property		
- House in Delhi	22,000	
- House in Chennai	(2,60,000)	
- House in Mumbai (self-occupied)	(20,000)	
	(2,58,000)	
Loss upto ` 2 lakhs can be set off against income from salary. Balance loss of ` 58,000 from house property has to be carried forward to A.Y.2022-23.		
Profits and gains from business or profession		
Profits from Speculative business - 2	46,000	
Less: Loss of ` 74,000 from speculation business - 1 set off to the extent of profits of ` 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Hence, the balance loss of ` 28,000 from speculative business has to be carried forward to A.Y.2022-23.	(46,000)	-
Profits from textile business	18,000	
Less: Loss from cosmetic business of ` 22,000 set off against profits from textile business to the extent of 18,000 as per section 70(1).	(18,000)	-
Balance loss of ` 4,000 from cosmetic business has to be carried forward to A.Y.2022-23, since the same cannot be set-off against salary income.		
Capital Gains	15,400	
Long term capital gain from sale of property		
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ` 16,000 set off against long- term capital gains to the extent of ` 15,400 as per section 74(1).	(15,400)	-
Balance short term capital loss of ` 600 has to be carry forward to A.Y.2022-23		
Income from Other Sources		
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	
Loss on activity of owning and maintenance of race horses [Loss incurred on activity of owning and maintenance of race horses cannot be set-off against	Nil	

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income from any source other than the activity of owning and maintaining race horses. Hence, such loss of ₹ 14,600 has to be carried forward to A.Y.2022-23]		
Gross Total Income		80,000 1,02,000

Question 27

Mr. Satish Sharma has derived the following income/loss, as computed below, for the previous year 2018-19:

Particulars	₹
Loss from let out house property	2,50,000
Loss from non-speculation business	3,20,000
Income from speculation business	12,45,000
Loss from specified business covered u/s 35AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from bettings (Gross)	90,000
Loss from card games	3,40,000

You are required to compute the total income of the assessee for the assessment year 2019-20, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-7-2019. (PYP 5 Marks Nov '18)

Answer 27

Computation of total income of Mr. Satish Sharma for the A.Y.2019-20

Particulars	₹	₹
Profits and gains of business or profession		
Income from speculation business	12,45,000	
Less: Set-off of loss from non-speculation business	3,20,000	
	9,25,000	
Less: Set-off of loss from house property, restricted to	2,00,000	7,25,000
Income from other sources		
Winnings from lotteries	1,50,000	
Winnings from bettings	90,000	2,40,000
Gross Total Income		9,65,000
Less: Deduction under Chapter VI-A		Nil
Total income		9,65,000

Losses to be carried forward to A.Y.2020-21:

Particulars	₹
Loss from house property (₹ 2,50,000 - ₹ 2,00,000) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. Balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year.	50,000
Loss from specified business covered by section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. As per section 73A (2), if loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. Since the return has been filed before the due date, such loss can be carried	4,10,000

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forward.	
Loss from card games Loss from card games can neither be set off against any other income, nor can it be carried forward.	

Question 28

Compute the total income of Mr. Praveen (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2021. Also, show the items eligible for carry forward.

Particulars	₹
Income from salaries	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000
Income from speculation business	40,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	50,000

(RTP May '18)

Answer 28

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

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	40,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	1,10,000	
	1,40,000	
Less: Loss from toy business set off	90,000	50,000
Income from other sources		
Income from betting		45,000
Gross total income		1,15,000

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Less: Deduction under section 80C(life insurance premium paid)		20,000
Total income		95,000

Losses to be carried forward:

Particulars		₹
(1)	Loss from house property (₹2,50,000 – ₹2,00,000)	50,000
(2)	Loss from toy business (₹1,30,000 - ₹40,000 - ₹90,000)	Nil
(3)	Loss from specified business covered by section 35AD	20,000

Notes:

- (i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 only.
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2029-30, in this case.
- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for set-off against profits of any specified business.
- (iii) Business loss cannot be set off against salary income. However, business loss of ₹ 90,000 (₹1,30,000 – ₹ 40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 50,000.
- (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 life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹1,15,000 – ₹ 50,000 (LTCG) – ₹ 45,000 (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.

Section - B

Question 1

Compute the gross total income of Mr. F for the A.Y. 2024-25 from the information given below –

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2023-24)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000

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Brought forward business loss (loss incurred six years ago)	(45,000)
--	-----------------

Answer 1

Gross Total Income of Mr. F for the A.Y. 2024-25

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short term capital gains		56,000
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

Note:

- (1) Dividend from Indian companies is fully taxable in the hands of shareholders at normal rates of tax.
- (2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2021-22 cannot be set-off in the A.Y.2022-23, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y.2023-24.

Question 2

Mr. Soohan submits the following details of his income for the assessment year 2024-25:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P.Y. 2016-17)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 2

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Paper 3 - Taxation

Computation of Gross Total Income of Mr. Soohan for the A.Y.2024-25

Particulars	₹	₹
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of ₹ 1,20,000 from iron-ore business set-off as per section 72(1) to the extent of ₹ 50,000	(50,000)	Nil
Balance business loss of ₹ 70,000 of P.Y.2015-16 to be carried forward to A.Y.2023-24		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of ₹ 60,000 set-off to the extent of ₹ 40,000	(40,000)	Nil
Balance short-term capital loss of ₹ 20,000 to be carried forward		
Short-term capital loss of ₹ 10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000
Gross Total Income		3,26,000
Losses to be carried forward to A.Y.2023-24		
Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Notes: Agricultural income is exempt under section 10(1)

Question 3

Mr. Batra furnishes the following details for year ended 31.03.2024:

Particulars	₹
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000

Paper 3 - Taxation

Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

- (i) Losses from activity of owning and maintaining race horses-pertaining to A.Y.2021-22 ₹ 25,000.
- (ii) Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2016-17.

Compute gross total income of Mr. Batra for the Assessment Year 2024-25, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Also determine the losses eligible for carry forward to the A.Y. 2025-26.

Answer 3

Computation of Gross Total Income of Mr. Batra for the A.Y. 2024-25

Particulars	₹	₹
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000
Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of ₹ 60,000 from textile business b/f from A.Y. 2014-15 set-off to the extent of ₹ 50,000	50,000	NIL
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2019-20 set-off to the extent of ₹ 15,000	15,000	NIL
Balance loss of ₹ 10,000 to be carried forward to A.Y. 2023-24 [See Note 2]		
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000	30,000	NIL
Balance loss of ₹ 70,000 to be carried forward to A.Y. 2025-26 [See Note 3]		
Gross Total Income		2,00,000

Losses to be carried forward to A.Y. 2025-26

Particulars	₹
Current year loss from speculative business [See Note-4]	60,000
Current year long term capital loss on sale of unlisted shares	70,000

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Paper 3 - Taxation

Loss from activity of owning and maintaining of race horse pertaining to A.Y.2021-22	10,000
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Notes:-

- (1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2014-15 expired in the A.Y. 2022-23, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to A.Y. 2023-24.
- (2) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- (4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

Question 4

Mr. A furnishes you the following information for the year ended 31.03.2024:

		(₹)
(i)	Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii)	Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,35,70,000) Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y. 2023-24. Assume 10% of the turnover during the previous year 2023-24 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	7,50,000
(iv)	He has brought forward depreciation relating to A.Y. 2022-23	1,00,000

Compute taxable income of Mr. A and his tax liability for the A.Y. 2024-25 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 4

Computation of total income and tax liability of Mr. A for the A.Y. 2024-25

Particulars	₹
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	10,70,000
Less : Set off of b/f depreciation relating to A.Y. 2020-21	1,00,000
Total income	9,70,000

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Paper 3 - Taxation

Tax liability	1,06,500
Add: Health and Education cess @4%	4,260
Total tax liability	1,10,760

Note:

- Income from retail trade:** Presumptive business income under section 44AD is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books. However, if he does not opt for presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD (4) and hence tax audit is mandatory. It may further be noted that he cannot opt for section 44AD for next five A. Ys, if he does not opt for section 44AD this year.
- Income from plying of light goods vehicles:** Income calculated under section 44AE (1) would be ₹ 7,500 x 12 x 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB. It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable. If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	₹
Income from retail trade under section 44AD [₹ 13,57,000 @8% plus ₹ 1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles under section 44AE [₹ 7,500 x 12 x 5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil
Total income	12,91,340
Tax thereon	1,99,902
Add : Health and Education cess @4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	2,07,900

Question 5

Mr. Aditya furnishes the following details for the year ended 31-03-2022:

Particulars	Amount (₹)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	20,000

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Paper 3 - Taxation

Income from salary (computed)	3,00,000
Loss from let out house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2020-21 ₹ 2,000.
- (2) Brought forward loss from trading business ₹ 5,000 relating to A.Y. 2017-18.

Compute the total income of Mr. Aditya and show the items eligible for carryforward, assuming that he does not opt for the provisions of section 115BAC.

Answer 5

Computation of total income of Mr. Aditya for the A.Y. 2022-23

Particulars	₹	₹
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(3A)	2,00,000	1,00,000
Loss from house property to the extent not set off i.e. ₹ 50,000 (₹ 2,50,000 – ₹ 2,00,000) to be carried forward to A.Y. 2023-24		
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of A.Y. 2017-18 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	5,000	40,000
Income from speculative business B	5,000	
Less: Loss of ₹ 25,000 from speculative business A set-off as per section 73(1) to the extent of ₹ 5,000	5,000	
Balance loss of ₹ 20,000 from speculative business A to be carried forward to A.Y. 2023-24 as per section 73(2)		Nil
Loss of ₹ 20,000 from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.		
Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]	75,000	

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Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A	1,02,000	23,000
Total Income		1,63,000

Items eligible for carried forward to A.Y.2023-24

Particulars	₹
<p>Loss from House property</p> <p>As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.</p> <p>As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2030-31, in this case.</p>	50,000
<p>Loss from speculative business A</p> <p>Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2026-27, in this case, as specified under section 73(4).</p>	20,000
<p>Loss from specified business</p> <p>Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .</p>	20,000
<p>Loss from the activity of owning and maintaining race horses</p> <p>Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2024-25, in this case, as specified under section 74A(3).</p>	2,000

Question 6

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2021-22.

	Particulars	₹
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2021-22 are as follows:

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Paper 3 - Taxation

	Particulars	₹
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the Assessment Year 2022-23 and the amount of loss, if any that can be carried forward or not.

Answer 6

Computation of Gross Total Income of Mr. Garg for the A.Y. 2022-23

Particulars	₹	₹
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y.2021-22 (Unabsorbed depreciation can be set-off against any head of income other than "salary")	11,000	55,000
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss [Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
Gross Total Income		71,000

Amount of loss to be carried forward to A.Y.2023-24

	Particulars	₹
(1)	Loss from speculative business [to be carried forward as per section 73] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2021-22 has to be carried forward to A.Y. 2023-24 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2025-26]	22,000
(2)	Loss on maintenance of race horses [to be carried forward as per section 74A] [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2026-27]	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

Question 7

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2022:

Particulars	₹
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Paper 3 - Taxation

Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he does not opt for the provisions of section 115BAC.

Answer 7

Computation of total income of Mr. Srivatsan for the A.Y.2022-23

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 30,000	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from cloth business	2,10,000	40,000
Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000
Less: Deduction under section 80C (life insurance premium paid) [See Note (iv) below]		30,000
Total income		85,000

Losses to be carried forward:

Particulars	₹
(1) Loss from cloth business (₹ 2,40,000 – ₹ 30,000 – ₹ 2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

Notes:

- (i) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. 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.
- (ii) Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.
- (iii) Loss from card games can neither be set off against any other income, nor can be carried forward.
- (iv) 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 life insurance premium of ₹ 45,000

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Paper 3 - Taxation

- paid has to be restricted to ₹ 30,000 [i.e., Gross Total Income of ₹ 1,15,000 – ₹ 40,000 (LTCG) – ₹ 45,000 (Casual income)].
- (v) 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.

Question 8

Mr. Rajat submits the following information for the financial year ending 31st March, 2024. He desires that you should:

- (a) Compute the total income and
(b) Ascertain the amount of losses that can be carried forward.

Particulars		₹
(i)	He has two houses:	
	(a) House No. I – Income after all statutory deductions	72,000
	(b) House No. II – Current year loss	(30,000)
(ii)	He has three proprietary businesses:	
	(a) Textile Business:	
	Discontinued from 31 st October, 2023 – Current year loss	40,000
	(ii) Brought forward business loss of A.Y.2019-20	95,000
	(b) Chemical Business:	
	Discontinued from 1 st March, 2021 – hence no profit/loss	Nil
	(ii) Bad debts allowed in earlier years recovered during this year	35,000
	(iii) Brought forward business loss of A.Y. 2020-21	50,000
	(c) Leather Business: Profit for the current year	1,00,000
	(d) Share of profit in a firm in which he is partner since 2009	16,550
(iii)	(a) Short-term capital gain	60,000
	(b) Long-term capital loss	35,000
(iv)	Contribution to LIC towards premium	10,000

Answer 8

Computation of total income of Mr. Rajat for the A.Y. 2024-25

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
	0	
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad 41(4) debts recovered taxable under section	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	
	0	
	95,000	
Less: Brought forward business loss of textile business for A.Y.2017-18 set off against the business income of current year	95,000	Nil

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Paper 3 - Taxation

3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A		
Under section 80C - LIC premium paid(not available since he is paying tax under the default tax regime)		-
Total Income		1,02,000

Statement of losses to be carried forward to A.Y. 2025-26

Particulars	₹
Brought forward chemical business loss of A.Y. 2018-19 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2022-23 to be carried forward u/s 74	35,000

Notes:

- (1) Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).
- (2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

Question 9

Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2024:

- (i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- (ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land ₹ 5,00,000.
- (iv) ₹ 51,000 received in cash from friends in party.
- (v) ₹ 55,000, received towards dividend on listed equity shares of domestic companies.
- (vi) Brought forward business loss of assessment year 2022-23 ₹ 12,50,000. Compute gross total income of Ms. Geeta for the Assessment Year 2024-25 and ascertain the amount of loss that can be carried forward.

Answer 9

Computation of Gross Total Income of Ms. Geeta for the Assessment Year 2024-25

Particulars	₹	₹
Profits and gains of business and profession		
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"		7,50,000
Less: B/f business loss of A.Y. 2022-23 ₹ 12,50,000 to be set-off to the extent of ₹ 7,50,000		7,50,000
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)		Nil
Capital Gains		
Long term capital gain on sale of land	5,00,000	
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	3,00,000	2,00,000
Income from other sources		
Cash gift received from friends - since the value of cash	51,000	

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gift exceeds ₹ 50,000, the entire sum is taxable	0	
Dividend received from a domestic company is fully taxable in the hands of shareholders	55,000	1,06,000
	0	
Gross Total Income		3,06,000

Notes:

- Balance brought forward business loss of assessment year 2022-23 of ₹ 5,00,000 has to be carried forward to the next year.
- Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per section 70(3).

Question 10

Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2023-24:

Sl. No.	Particulars	₹
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above. The other details of depreciation and brought forward loss (pertaining to A.Y. 2023-24) are:

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the Assessment year 2024-25, and the amount of loss that can or cannot be carried forward.

Answer

Answer 10

Computation of Gross Total Income of Mr. P for the A.Y. 2024-25

Particulars	₹	₹
(i) Income from salary		18,000
(ii) Income from House Property		
Net Annual Value	70,000	
Less: Deduction under section 24 (30% of ₹ 70,000)	21,000	49,000
(iii) Income from business and profession		
(a) Income from business	80,000	
Less : Current year depreciation	8,000	
	72,000	
Less : Unabsorbed depreciation	9,000	63,000

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(b) Income from speculative business	12,000	
Less: B/f loss of ₹ 16,000 from speculative business s/o to the extent of ₹ 12,000	12,000	Nil
(Balance loss of ₹ 4,000 (i.e. ₹ 16,000 – ₹ 12,000) can be carried forward to the next year)		
(iv) Income from capital gain		
Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	7,800	8,000
Gross total income		1,38,000

Amount of loss to be carried forward to the next year

Particulars	₹
Loss from speculative business (to be carried forward as per section 73)	4,000
Loss on maintenance of race horses (to be as per section 74A)	9,000

Notes:

- Loss on gambling can neither be set-off nor be carried forward.
- As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2023-24. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

Question 11: illustration

Mr. A (aged 35 years) submits the following particulars pertaining to the A.Y.2024-25:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out property	(-)2,20,000
Business loss	(-)1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the A.Y.2024-25, assuming that

- He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- He pays tax under the default tax regime.

Answer 11**Computation of total income of Mr. A for the A.Y.2024-25 under normal provisions of the Act**

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of ₹ 20,000 from house property		0

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to be carried forward to next assessment year		
Income from other sources (interest on fixed deposit with bank)	80,000	
Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		2,00,000
Less: Deduction under Chapter VI-A		Nil
Total income		2,00,000

Notes: (i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.

(ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Question 12: illustration

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2023-24:

Particulars	₹
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from non-speculative business	(22,000)
Income from speculative business	(4,000)
Short-term capital losses	(25,000)
Long-term capital gains taxable u/s 112	19,000

What is the total income chargeable to tax for the A.Y.2024-25, assuming that he does not opt for the provisions of section 115BAC?

Answer 12

Total income of Mr. B for the A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Income from salaries		45,000
Income from house property		
Loss from house property to be carried forward [Note (i)]	(24,000)	
Profits and gains of business and profession		
Business loss to be carried forward [Note (ii)]	(22,000)	
Speculative loss to be carried forward [Note (iii)]	(4,000)	
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000 [Note (iii)]	(19,000)	
	Nil	
Balance short term capital loss of ₹ 6,000 to be		

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carried forward [Note (iii)]		
Taxable income		21,000

Notes:

- (i) Since Mr. B is paying tax under the default tax regime u/s 115BAC, loss from house property cannot be set off against income under any other head. Hence, such loss has to be carried forward to the next year for set-off against income from house property, if any.
- (ii) Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- (iii) Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- (iv) Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

Question 13: illustration

During the P.Y. 2023-24, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of A.Y.2022-23	(96,000)
Short term capital loss of A.Y.2023-24	(37,000)
Long term capital gain u/s 112	75,000

What is the capital gain taxable in the hands of Mr. C for the A.Y.2024-25?

Answer 13

Taxable capital gains of Mr. C for the A.Y. 2024-25?

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short term capital loss of the A.Y.2021-22	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2020-21	(75,000)	Nil
₹ 96,000 set off to the extent of ₹ 75,000		
[See Note below]		
Taxable short-term capital gains		1,13,000

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2022-23 of ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year.

Question 14: illustration

Mr. D has the following income for the P.Y.2023-24:

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Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to A.Y. 2023-24)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y. 2021-22)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2024-25?

Answer 14

Total income of Mr. D for the A.Y. 2024-25

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	75,000	
	Nil	
Balance loss of ₹ 21,000 (₹ 96,000 – ₹ 75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y. 2025-26		
Income from textile business	85,000	
Less: Brought forward business loss from textile business.	50,000	35,000
Total income		35,000

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

Question 15: illustration

Mr. E has furnished his details for the A.Y. 2024-25 as under:

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y. 2020-21	(30,000)
Winning from lotteries (Gross)	20,000

What is the taxable income of Mr. E for the A.Y. 2024-25?

Answer 15

Computation of taxable income of Mr. E for the A.Y. 2024-25

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	60,000	
Less : Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000

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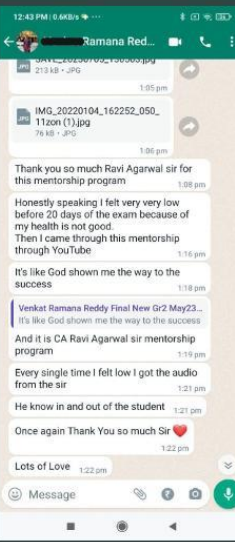
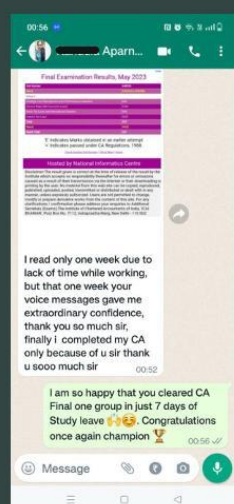
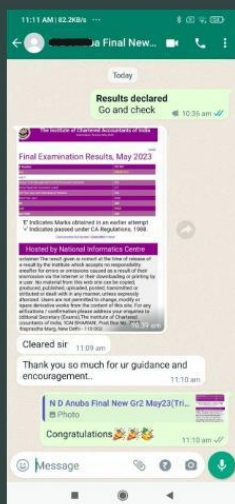
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Taxable income	2,70,000
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Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year.

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Chapter 6

Deductions from gross total income

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q3, Q6	Q5			Q7		Q4	Q8		
RTP					Q1			Q2		Q9		
Q & A												
MTP	Q5	Q7					Q8		Q6	Q9		
PYP		Q1				Q12					Q2	
RTP	Q3	Q4	Q13		Q10							Q11

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. XYZ Ltd. has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 12.3.2012 and unit in DTA from 15.6.2015. Total turnover of XYZ Ltd. and Unit in DTA is ₹ 8,50,00,000 and 3,25,00,000, respectively. Export sales of unit in SEZ and DTA is ₹ 2,50,00,000 and ₹ 1,25,00,000, respectively and net profit of Unit in SEZ and DTA is ₹ 80,00,000 and ₹ 45,00,000, respectively. XYZ Ltd. would be eligible for deduction under section 10AA for -
- ₹ 38,09,524
 - ₹ 19,04,762
 - ₹ 23,52,941
 - ₹ 11,76,471 (RTP May '20)

Ans: (b)

2. Mr. Arpit, an employee of MNO Ltd. has contributed ₹ 1,61,280 towards NPS and similar amount is contributed by his employer. His basic salary is ₹ 80,000 p.m. and dearness allowance is 40% of basic salary which forms part of retirement benefits. He also paid ₹ 55,000 towards LIC premium for himself and his wife and medical insurance premium of ₹ 35,000 by crossed cheque for his mother, being a senior citizen during the previous year 2020-21. How much deduction is available under Chapter VI-A while computing total income of Mr. Arpit for the A.Y. 2021-22?
- ₹ 3,46,280
 - ₹ 3,69,400
 - ₹ 3,19,400
 - ₹ 3,96,280 (RTP Nov '21)

Ans: The Answer is (b)

3. Mr. Krishna is a philanthropic person. During the P.Y. 2018-19, out of his total

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receipts, he gave away ₹8,00,000 in cash to Prime Minister's National Relief Fund and was left with only ₹2,00,000 which is just enough money to meet his personal requirements. On these facts, Mr. Krishna is of the view that as ₹2,00,000 is below the maximum amount not chargeable to tax, no income of him is chargeable to tax during the previous year. He approaches you to file his income tax return showing ₹2,00,000 as his gross total income. Do you agree with the view of Mr. Krishna? Also, compute the amount of his total income.

- (m) Yes, as income actually left in Mr. Krishna's hands is ₹2,00,000 only. His total income shall be ₹2,00,000.
- (n) No, as what is done after income is earned by Mr. Krishna will not give him any tax exemption. His total income shall be ₹10,00,000.
- (o) His gross total income and total income are ₹10 lakhs, since this is a case of application of income and donation made in cash will not qualify for deduction under section 80G.
- (p) Yes, as ₹8,00,000 is exempt from tax, the gross total income as well as total income of Mr. Krishna shall be ₹2,00,000 only. **(MTP 2 Marks, March'19)**

Ans: (c)

4. The basic salary of Mr. Raj is ₹ 1,15,000 p.m. He is entitled to dearness allowance, which is 30% of basic salary which forms part of pay for retirement benefits. Mr. Raj and his employer, XYZ Ltd., both contribute 20% of basic salary to the pension scheme referred to in section 80CCD. What is the amount of deduction available to Mr. Raj under section 80CCD for A.Y. 2022 -23?

- a) ₹ 4,08,800
- b) ₹ 5,05,400
- c) ₹ 3,79,400
- d) ₹ 3,58,800 **(MTP 2 Marks March 22)**

Ans: (c)

5. Which of the following statements is/are correct in respect of deduction allowed to an assessee in respect of certain donations for scientific research or rural development u/s 80GGA?

- (i) Deduction is not allowed to an assessee having income from business.
- (ii) The maximum amount of deduction allowed is ₹ 10,000.
- (iii) 100% deduction is allowed if amount in excess of ₹ 10,000 donated is paid by any mode other than cash.
- (iv) Deduction is not allowed to an assessee having income from salaries.
- (v) Any sum paid to a University to be used for scientific research is allowed if such University is approved u/s 35(1)(ii).
- (vi) Any sum paid to a notified Urban Development Fund is allowed.
 - a) (I), (iii), (iv), (v), (vi)
 - b) (ii), (iii), (v)
 - c) (I), (ii)
 - d) (I), (iii), (v) **(MTP 2 Marks, Oct'19)**

Ans: (d)

6. Mr. Arjun, a businessman, whose total income (after allowing deduction under chapter VI-A except under section 80GG) for AY 2019-20 is ₹5,50,000. He does not own any house property and is staying in a rented accommodation in Patna for a monthly rent of ₹ 8,000. Deduction allowance under section 80GG for A.Y. 2019-20 is:

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- a) ₹ 41,000
 b) ₹ 1,37,500
 c) ₹ 60,000
 d) ₹ 96,000 (MTP 2 Marks, April'19)

Ans; (a)

7. Mr. Krishna, a resident Indian aged 61 years, maintains a saving account with a co-operative land development bank and he earns ₹ 20,000 as interest on saving account for the Financial Year 2020-21. Mr. Krishna also maintains a fixed deposit and recurring deposit account with Mani Finance (A Non-Banking Finance Company) and earns ₹ 25,000 and 10,000 as interest on fixed deposit and recurring deposit, respectively. What would be the deduction allowable to Mr. Krishna under Chapter VI-A if he does not opt for the section 115BAC for the A.Y. 2021 -22?

- (a) ₹ 55,000
 (b) ₹ 10,000
 (c) ₹ 20,000
 (d) ₹ 50,000 (MTP 2 Marks, April'21)

Ans : (c)

8. Rudra Ltd. has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 22.5.2018 and unit in DTA from 10.7.2019. Total turnover of Rudra Ltd. and Unit in DTA is ₹ 7,50,00,000 and 2,75,00,000, respectively. Export sales of unit in SEZ and DTA is ₹ 3,25,00,000 and ₹ 1,50,00,000, respectively and net profit of Unit in SEZ and DTA is ₹ 60,00,000 and ₹ 40,00,000, respectively. Rudra Ltd. would be eligible for deduction under section 10AA for -

- (a) ₹ 41,05,263
 (b) ₹ 20,52,632
 (c) ₹ 26,00,000
 (d) ₹ 13,00,000 (MTP 2 Marks Sep'22)

Ans: (a)

9. Mr. Raj, aged 65 years, is a salaried person. He has taken a LIP on his major son's name on 01.11.2014. The sum assured of LIP is ₹ 16,00,000 and the premium payable is ₹ 1,70,000. He has also taken a medical policy of ₹ 10,00,000 for self and his wife on 01.11.2021 The medical policy is valid for 5 years. He has paid one time premium of ₹ 1,80,000. What is the total deduction available to Mr. Raj for A.Y. 2022-23?

- (a) ₹ 1,86,000
 (b) ₹ 1,96,000
 (c) ₹ 1,90,000
 (d) ₹ 1,80,000 (RTP Nov'22)

Ans:(d)**Question & Answers****Question 1**

Mrs. Vishal Gupta, a resident individual, is running a SEZ unit, as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31-3-2018, pertaining to these two units

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	DTA Unit (₹ in lakhs)	SEZ Unit (₹ in lakhs)
Export turnover	100	1000
Total turnover	400	1100
Net profit	50	220

Compute the deduction available u/s 10AA:

- (i) **When the SEZ unit had been set up on 12-3-2010, and**
 - (ii) **When the SEZ unit had been set up on 12-8-2015.**
- (PYP 6 Marks, Nov'18)**

Answer 1

Computation of deduction under section 10AA

(i)	<p>If Unit in SEZ was set up on 12-03-2010: Since A.Y. 2018-19 is the 9th assessment year from A.Y. 2010-11, relevant to the previous year 2009-10, in which the SEZ unit was set up, it shall be eligible for deduction of 50% of the profits derived from export, assuming all the other conditions specified in section 10AA are fulfilled.</p> $\text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$ $220 \text{ lakhs} \times \frac{1000 \text{ lakhs}}{1100 \text{ lakhs}} \times 50\% = 100 \text{ lakhs}$
(ii)	<p>If Unit in SEZ was set up on 12-08-2015: Since A.Y. 2018-19 is the 3rd assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, in which the SEZ unit was set up, it shall be eligible for deduction of 100% of the profits derived from export, assuming all the other conditions specified in section 10AA are fulfilled.</p> $\text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$ $220 \text{ lakhs} \times \frac{1000 \text{ lakhs}}{1100 \text{ lakhs}} \times 100\% = 200 \text{ lakhs}$
<p>The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.</p>	

Note-

As per section 10AA, in computing the total income of Mrs. Vishal Gupta from her unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 1.4.2006 but before 1.4.2021, a deduction of 100% of the profit and gains derived from export of such articles or things or from services is allowable for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA. In this case, it is assumed that the manufacturing or production commenced from the year in which the SEZ was set up.

Question 2

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Paper 3 - Taxation

Mr. Ray, a resident individual, aged 37 years gives the following information with respect to various loans taken by him from scheduled banks for various purposes-

(i) **A housing loan of ` 36,00,000/- taken on 15th March, 2022 for the purchase of a house to be used for self-residence at a cost of ` 47,00,000/-. The stamp duty value of the house was ` 42,00,000/- at the time of purchase. Amount of re-payment of loan during P.Y.2022-23 was:**

(A) **towards principal - ` 1,25,000/-**

(B) **towards interest - ` 3,65,000/-**

This is the first and only residential house owned by Mr. Ray.

(ii) **A vehicle loan of ` 16,00,000/- taken on 31st October, 2021 for the purchase of electric vehicle for personal use. Amount of re-payment of loan during P.Y.2022-23 was:**

(A) **towards principal - ` 75,000/-**

(B) **towards interest - ` 1,90,000/-**

Besides these loans, he has also paid a sum of ` 15,000 to a political party as contribution. The entire amount was paid in cash.

You are required to compute the amount of deduction(s) available to Mr. Ray under various provisions of Income-tax Act for A.Y.2023-24 so that he gets the maximum benefits assuming that he does not opt to pay tax under section 115BAC. (PYP 4 Marks May '23)

Answer 2

Computation of amount of deductions available to Mr. Ray for A.Y. 2023-24

		Amount (`)	
(i)	Deduction allowable while computing income under the head "Income from house property" Deduction under section 24(b) for interest on loan of ` 3,65,000 in respect of self-occupied property restricted to		2,00,000
(ii)	Deduction under Chapter VI-A from Gross Total Income Deduction under section 80C For repayment of loan of ` 1,25,000 to bank	1,25,000	
	Deduction under section 80EEA Since stamp duty value does not exceed ` 45 lakhs and Mr. Ray does not own any residential house, he is eligible for deduction of upto ` 1,50,000 in respect of such interest on loan since loan is sanctioned between 1.4.2019 and 31.3.2022. ` 3,65,000 - ` 2,00,000 [claimed as deduction u/s 24(b)] = ` 1,65,000 restricted to ` 1,50,000, being the maximum permissible deduction	1,50,000	
	Deduction under section 80EEB Deduction for interest on loan for purchase of electric vehicle of ` 1,90,000 restricted to ` 1,50,000, being the maximum permissible deduction, since loan is sanctioned between 1.4.2019 and 31.3.2023. No deduction in respect of principal repayment of loan for purchase of electric vehicle is allowable	1,50,000	
	Deduction under section 80GGC Contribution of ` 15,000 to political party not allowable since the sum is paid in cash Deduction under Chapter VI-A from Gross Total Income	Nil	4,25,000

Question 3

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Paper 3 - Taxation

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

- (i) Whether Mr. Kailash can claim deduction under section 24 in respect of interest for the A.Y. 2018-19?**
- (ii) Whether deduction under Section 80C and 80EE can be claimed by him for the A.Y. 2018-19?(RTP May '18)**

Answer 3

(i) As per section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction. It is stated that the construction is completed only in May, 2018. Hence, deduction under section 24 in respect of interest on housing loan cannot be claimed in the assessment year 2018-19.

(ii) Deduction under section 80C cannot be claimed

Clause (xviii) of section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2018-19, there is no such income chargeable under this head. Hence, deduction under section 80C cannot be claimed for A.Y. 2018-19.

Deduction under section 80EE can be claimed

As per section 80EE, interest payable on loan taken for the purpose of acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of ₹ 50,000, provided following conditions are satisfied –

- (i) Such loan is sanctioned during the P.Y. 2016-17
- (ii) The value of the house does not exceed ₹ 50 lakhs
- (iii) The amount of loan sanctioned does not exceed ₹ 35 lakhs and
- (iv) the assessee does not own any residential house on the date of sanction of loan

Section 80EE does not pose any restriction regarding the chargeability of the income from such property under the head "Income from House Property. Therefore, in this case, since Mr. Kailash satisfies all the conditions stipulated under section 80EE, interest on such loan would qualify for deduction under section 80EE, subject to a maximum of ₹ 50,000.

Question 4

Mr. Anay manufactures toys in a factory located in Noida. His profit from the manufacture of toys for Assessment year 2018-19 is ₹ 1.85 crore and total turnover is ₹ 18.70 crore.

On 1st April 2017, there were 100 employees engaged in his factory. Due to increase in demand of his products, he employed 140 additional employees during the previous year 2017-18 comprises of:

- (a) 15 casual employees employed on 15th April 2017 till 31st January 2018 on monthly emolument of ₹ 22,000 per month**
- (b) 40 regular employees employed on 1st May, 2017 on monthly emolument of ₹ 22,000 per month**
- (c) 25 contractual employees employed on 1st July 2017 for 2 years on monthly**

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Paper 3 - Taxation

- emolument of ₹ 15,000 per month**
- (d) **35 regular employees employed on 1st August, 2017 on monthly emolument of ₹ 30,000 per month**
- (e) **25 regular employees employed on 1st October, 2017 on monthly emolument of ₹ 22,000 per month**

Compute the deduction under Section 80JJAA, if available to Mr. Anay for Assessment year 2018-19, assuming that monthly emoluments were paid by use of ECS. The regular and contractual employees participate in the recognised provident fund while casual employees do not.

Would your answer be different if Mr. Anay is engaged in the manufacture of apparel? Examine.

[Note - Ignore the amount of deduction available under section 80JJAA to Mr. Anay, for the employees employed in preceding previous years, while computing the deduction under 80JJAA for the assessment year 2018-19] (RTP Nov '18)

Answer 4

Computation of deduction under section 80JJAA	
Mr. Anay is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2018-19, as his total turnover from business exceeds ₹ 1 crore and he has employed "additional employees" during the P.Y.2017 -18.	
Additional employee cost = [₹ 22,000 × 40 new regular employees × 11 months] + [₹ 15,000 per month × 9 months × 25 new contractual employees]	
= ₹ 96,80,000 + ₹ 33,75,000 = ₹ 1,30,55,000	
Deduction under section 80JJAA = 30% of ₹ 1,30,55,000 = ₹ 39,16,500.	

Working Note: Number of Additional employees employed during the P.Y.2017 -18

Particulars		No. of additional employees	
Total number of additional employees employed during the year			140
Less:	Casual workmen employed on 15th April 2017, who do not participate in the recognised provident fund	15	
	Regular employees employed on 1st August 2017, since their total monthly emoluments exceed ₹ 25,000	35	
	Regular employees employed on 1st October 2017, for a period of less than 240 days during the P.Y.2017-18	25	75
Total number of additional employees employed during the P.Y.2017-18			65

Yes, the answer would be different, if Mr. Anay is engaged in the business of manufacture of apparel. Since the number of days of employment in a year has been relaxed from 240 days to 150 days in case of apparel industry, wages paid to regular employees employed on 1.10.2017 would also qualify for deduction under section 80JJAA for A.Y. 2018-19.

Additional employee cost = ₹ 1,30,55,000 + ₹ 33,00,000 (₹ 22,000 × 6 × 25)
= ₹ 1,63,55,000

Deduction under section 80JJAA = 30% of ₹ 1,63,55,000 = ₹ 49,06,500

Question 5

Mr. Rajkumar, a proprietor has set up a unit in Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2017-18.

Particulars	Rajkumar	Unit in DTA (₹)
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Paper 3 - Taxation

	Proprietorship (₹)	
Total Sales	7,50,00,000	3,00,00,000
Export Sales	4,50,00,000	1,50,00,000
Net Profit	90,00,000	15,00,000

Compute the quantum of eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2018-19, in the following situations:

- If both the units were set up and start manufacturing from 20-07-2009.
- If both the units were set up and start manufacturing from 04-10-2015. (MTP 5 Marks, March'18)

Answer 5

Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Mr. Rajkumar from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 1st April 2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of first five consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Computation of eligible deduction under section 10AA [See Working Note below]:

- If unit in SEZ was set up and began manufacturing from 20-07-2009:**

Since A.Y. 2018-19 is the 9th assessment year from A.Y. 2010-11, relevant to the previous year 2009-10, in which the SEZ unit began manufacturing of articles or things, he shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= 75 \text{ lakhs} \times \frac{300 \text{ lakhs}}{450 \text{ lakh}} \times 50\% = \text{₹Rs}25 \text{ lakhs}$$

- If Unit in SEZ was set up and began manufacturing from 04-10-2015:**

Since A.Y. 2018-19 is the 3rd assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, in which the SEZ unit began manufacturing of articles or things, he shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}}$$

$$= 75 \text{ lakhs} \times \frac{300 \text{ lakhs}}{450 \text{ lakh}} \times 100\% = \text{Rs}50 \text{ lakhs}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rajkumar Proprietorship (₹Rs)	Unit in DTA (₹Rs)	Unit in SEZ (Rs.)
Total Sales	7,50,00,000	3,00,00,000	4,50,00,000
Export Sales	4,50,00,000	1,50,00,000	3,00,00,000

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Paper 3 - Taxation

Net Profit	90,00,000	15,00,000	75,00,000
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Question 6

In August 2021, Mr. Kunal, a first-time home buyer, borrowed a sum of ₹ 40 lakhs from the National Housing Bank for acquisition of a residential house for self-occupation. The stamp duty value of the house is ₹ 43 lakhs. The loan was sanctioned on 17.6.2021. The loan amount was disbursed directly to the builder by the bank. The repayments made towards principal and interest during the P.Y. 2021-22 was ₹ 2 lakhs and ₹ 2.80 lakhs, respectively.

In the light of the above facts, determine the deduction, if any, available to Mr. Kunal during the A.Y. 2022-23 in respect of the repayment of loan and interest. (MTP 4 Marks March 22)

Answer 6

Deduction in respect of repayment of loan under section 80C

Section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

Since, Mr. Kunal has repaid loan of ₹ 2 lakhs during the A.Y. 2022-23, he is eligible for deduction under section 80C in respect of loan repayment. However, deduction under section 80C cannot exceed ₹ 1,50,000. Therefore, deduction under section 80C would be ₹1,50,000 for the A.Y. 2022-23.

Deduction in respect of interest on housing loan under section 24

As per section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. However, where the self-occupied property is acquired or constructed on or after 1.4.1999 and such acquisition or construction is completed within five years from the end of the financial year in which capital was borrowed, the amount of deduction would not exceed ₹ 2 lakhs.

Hence, deduction under section 24 in respect of interest on housing loan would be ₹ 2 lakhs only.

Deduction under section 80EEA

As per section 80EEA, interest payable on loan taken for the purpose of acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of ₹ 1,50,000, provided following conditions are satisfied –

- (i) Such loan is sanctioned by the financial institution during the period 1.4.2019 to 31.3.2022
- (ii) The stamp duty value of the house does not exceed ₹ 45 lakhs and
- (iii) the assessee does not own any residential house on the date of sanction of loan.

Therefore, in this case, since Mr. Kunal satisfies all the above conditions, he is eligible for deduction under section 80EEA. Mr. Kunal has paid interest of ₹2,80,000 out of which ₹2,00,000 is eligible under section 24(b), hence, interest of ₹80,000 would qualify for deduction under section 80EEA.

Question 7

The Gross Total Income of Mr. Bharadwaj, a resident, for the year ended 31-03-2018 is ₹ 15 lakhs. Examine the allowability of the deduction to Mr. Bharadwaj from the following information.

- (i) **He has contributed ₹ 2 lakh towards Clean Ganga Fund set up by the Central Government**
- (ii) **He has incurred medical expenditure of ₹ 50,000 towards surgery for his grandmother who is 85 years of age. (No Premium is paid to keep in force an insurance on her health). (MTP 3 Marks, Aug'18)**

Answer 7

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Paper 3 - Taxation

Allowable deduction to Mr. Bhardwaj from Gross Total Income

- (i) **Contribution towards Clean Ganga Fund set up by the Central Government:**
Whole of the contribution i.e., ₹ 2 lakhs towards Clean Ganga Fund, set up by the Central Government, is allowable as deduction under section 80G to Mr. Bharadwaj, since he is a resident of India.
- (ii) **Medical Expenditure of ₹ 50,000 towards surgery of his grandmother:**
Deduction is allowable under section 80D, in respect of medical expenditure incurred by an assessee for himself or any member of the family or parents, if any of such person(s) is of the age of 80 years or more and no payment has been made to keep in force an insurance on the health of such person(s).
In the present case, no deduction is allowable to Mr. Bharadwaj, since he incurred medical expenditure towards surgery of his grandmother, who does not fall within the definition of "family" under section 80D. Apart from family, deduction is only allowable in respect of premium paid for parents, and not grandparents.

Question 8

Compute the deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2021-22. Mr. Dhyanchand, aged 65 years, is working with ABC Ltd. His income comprises of salary of ₹ 18,50,000 and interest on fixed deposits of ₹ 75,000. He submits the following particulars of investments and payments made by him during the previous year 2020-21:

- Deposit of ₹ 1,50,000 in public provident fund
- Payment of life insurance premium of ₹ 62,000 on the policy taken on 01.4.2017 to insure his life (Sum assured – ₹ 4,00,000).
- Deposit of ₹ 45,000 in a five year term deposit with bank.
- Contributed ₹ 2,10,000, being 15% of his salary (basic salary plus dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by ABC Ltd.
- On 1.4.2020, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years
- Incurred ₹ 46,000 towards medical expenditure of his father, aged 85 years, not dependent on him. No insurance policy taken for his father.
- He spent ₹ 6,000 for the preventive health-check up of his wife.
- He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability. (MTP 7 Marks, Mar 21, RTP May '19)

Answer 8

Deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2021-22

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid ₹ 62,000 (deduction restricted to ₹ 40,000, being 10% of ₹ 4,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)	40,000	
	Five year term deposit with bank	45,000	
		2,35,000	
80CCD(1)	Restricted to Contribution to NPS of the Central Government, ₹ 1,60,000 [₹ 2,10,000 – ₹ 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [₹ 2,10,000 x 10/15] [See Note 1]		1,50,000

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			1,40,000
			2,90,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), ₹ 2,90,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,40,000
80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4 th of lumpsum premium, since policies would be in force for four previous year	47,000	
	(b) Preventive health check up ₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family member is senior citizen)	3,000	
		50 000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	46,000	
	Total of (i) and (ii)	96,000	
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to		50,000
Deduction under Chapter VI-A			6,11,000

Notes:

- The deduction under section 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Dhyanchand to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,60,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,40,000.
- The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of ₹ 1,50,000 under section 80CCE.

Question 9

Mr. Raju furnishes the following particulars for the previous year 2021-22 in respect of an industrial undertaking established in "Special Economic Zone" in March 2016. It began manufacturing in April 2016.

Particulars	(₹)
Total sales	1,70,00,000
Export sales [proceeds received in India]	90,00,000

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Paper 3 - Taxation

Domestic sales	80,00,000
Profit from the above undertaking	40,00,000

Export Sales of F.Y. of 2021-22 include freight and insurance of ₹ 10 lakhs for delivery of goods outside India. Compute the amount of deduction available to Mr. Raju under section 10AA for A.Y. 2022-23. (MTP 4 Marks Oct'22, RTP Nov '19 & Nov '21)

Answer 9

Computation of deduction under section 10AA for A.Y. 2022-23

<p>Sinc year A.Y. 2022-23 is the 6th assessment year 2017-18 relevant to the previous year 2016-17, in the which the SEZ unit began manufacturing of articles or thinks, it shall be eligible for deduction of 50% of the profit derived from export of such articles or thinks, assuming all the other conditions specified in section 10AA are fulfilled</p>	
$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$	
$= 40,00,000 \times \frac{80,00,000}{1,60,00,000} \times 50\% = ₹ 10,00,000$	

Working Note:

	₹
Export Turnover	
Sale proceeds received in India	90,00,000
Less: Freight and insurance for delivery of goods outside India to be excluded from export turnover	10,00,000
	80,00,000
Total turnover	1,70,00,000
Less: Freight and insurance not includible [Since freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also].	10,00,000
	1,60,00,000

Question 10

Mr. Arihant, a resident individual aged 40 years, has Gross Total Income of ₹ 7,50,000 comprising of income from Salary and income from house property for the assessment year 2019-20. He provides the following information:

Paid ₹ 70,000 towards premium for life insurance policy of his handicapped son (section 80U disability). Sum assured ₹ 4,00,000; and date of issue of policy 1-8-2017.

Deposited ₹ 90,000 in tax saver deposit in the name of his major son in Punjab National Bank of India.

Paid ₹ 78,000 towards medical insurance for the term of 3 years as a lumpsum payment for himself and his spouse. Also, incurred ₹ 54,000 on medical expenditure of his father, a resident aged 68 years. No medical insurance policy is taken in the name of his father. His father earned ₹ 4,50,000 interest from fixed deposit.

Contributed ₹ 25,000 to The Clean Ganga Fund, set up by the Central Government. Compute the Total Income and deduction under Chapter VI-A for the Assessment year 2019-20. (RTP May '20)

Answer 10

Computation of Total Income of Mr. Arihant for A.Y. 2019-20

Particulars	₹	₹	₹
Gross Total Income			7,50,000
Less: Deduction under Chapter VI-A			
Under section 80C	60,000		

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- Life insurance premium of ₹ 70,000 (restricted to ₹ 60,000 i.e., 15% of ₹ 4,00,000, being the sum assured, since the policy has been taken on or after 01.04.2013, in respect of his handicapped son suffering from disability u/s 80U)			
- Tax saver deposit of ₹ 90,000 in the name of his major son does not qualify for deduction under section 80C, since such deposit has to be made in the name of the assessee himself to qualify for deduction u/s 80C	Nil	60,000	
Under section 80D - Medical insurance premium for self and his wife, pertaining to the previous year 2018-19 is ₹ 26,000, being 1/3rd of ₹ 78,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to	25,000		
- Deduction in respect of medical expenditure of ₹ 54,000 for his father, being a senior citizen would be allowable, since no insurance policy is taken in his name, to the extent of	50,000	75,000	1,60,000
Under section 80G - Contribution by a resident towards the Clean Ganga Fund, set up by the Central Government would be eligible for 100% deduction without any qualifying limit.		25,000	
Total Income			5,90,000

Question 11

Mr. Jain, a resident individual, aged 40 years, suffers from severe disability as certified by medical authority. He gives the following information for the previous year 2022-23 -

- (i) He has paid life insurance premium by cheque ₹ 27,000 to insure his life. The insurance policy was taken on 27.8.2018 and the sum assured is ₹ 2,20,000.
- (ii) He had written a literary book for Rochak Publication. A lump sum amount of royalty income earned in the previous year 2022-23 amounted to ₹ 9,00,000. Expenses incurred for writing the book amounted to ₹ 40,000.
- (iii) His friends gifted a statue of Goddess Saraswati to his daughter Ms. Diya (aged 14 years) on the successful completion of her secondary school. Fair market value of the statue is ₹ 65,000.
- (iv) He received a gold chain worth ₹ 68,000 from his in-laws on the occasion of his marriage anniversary
- (v) He had deposited ₹ 70,000 in fixed deposit with SBI in the name of his minor son in September 2022. Interest earned on such deposit ₹ 5,500.
- (vi) He donated ₹ 5,000 in cash to a NGO (the NGO was registered under section 80G of the Income-tax Act, 1961).
- (vii) He had taken a loan of ₹ 38,00,000 for the purchase of a house property valuing ₹ 45,00,000 for self-occupation from a financial institution on 1st May 2020. He repaid ₹ 1,80,000 during the P.Y. 2022-23 out of which ₹ 1,05,000 is towards principal payment and the balance is for interest on loan.

Compute the total income of Mr. Jain for the A.Y. 2023-24 if he does not opt for

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Paper 3 - Taxation

the provisions of section 115BAC. (RTP Nov '23)

Answer 11

Computation of total income of Mr. Jain for the A.Y.2023-24

Particulars	₹	₹
Income from house property		
NAV	Nil	
Less: Interest on loan	75,000	(75,000)
Income from Other Sources		(75,000)
Royalty	9,00,000	
Less: Expenses incurred for writing book	40,000	8,60,000
Value of statue of Goddess Saraswati	65,000	
[The fair market value of the statue (sculpture) received by his minor daughter as gift (not on account of her skill) from his friends would be taxable, since its value exceeds ₹ 50,000. It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife].	1,500	
Less: Exemption under section 10(32)		63,500
Value of Gold Chain [The Fair market value of ₹ 68,000 of gold chain received on occasion of his marriage anniversary would be exempt, since it is received from a relative.]		-
Interest on fixed deposit in the name of his son [It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife]	5,500	
Less: Exemption under section 10(32)	1,500	4,000
Gross Total Income		8,52,500
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Life insurance premium [Since Mr. Jain suffers from severe disability, premium upto 15% of the sum assured ₹ 2,20,000 would be allowed, as the policy is taken after 31.3.2012]	27,000	
Repayment of principal amount for housing loan	1,05,000	1,32,000
Deduction under section 80G		
Donation to an NGO registered under section 80G [Not allowable since the donation is made in cash of a sum exceeding ₹ 2,000]		-
Deduction under section 80QQB		
Royalty income of a resident from literary book		3,00,000

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Deduction under section 80U [Since Mr. Jain suffers from severe disability]		1,25,000
Total income		2,95,500

Question 12

Mr. Xavier, an Indian resident individual, set up a unit in Special Economic Zone (SEZ) in the financial year 2015-16 for production of Mobile Phones. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2018-19, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 93 lakhs (including cost of land ₹ 13 lakhs). The warehouse became operational with effect from 1st April, 2019 and the expenditure of ₹ 63 lakhs was capitalized in the books on that date.

Further details relevant for the financial year 2019-20 are as follows:

Particulars	₹
Profit from operation of warehousing facility before claiming deduction under section 35AD	1,10,00,000
Net Profit of SEZ (Mobile Phone) Unit	50,00,000
Export sales of SEZ (Mobile Phone) Unit	90,00,000
Domestic Sales of SEZ (Mobile Phone) Unit	60,00,000

Compute income tax (including AMT under 115JC) payable by Mr. Xavier for Assessment Year 2020-21. (PYP ssss6 Marks, Jan'21)

Answer 12

Computation of total income and tax liability of Mr. Xavier for A.Y. 2020-21 (under the regular provisions of the Act)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	50,00,000	
Less: Deduction under section 10AA	30,00,000	
[50,00,000 x 90,00,000 / 1,50,00,000 x 100%, since it is 5th year of manufacturing]		
Business income of SEZ unit chargeable to tax		20,00,000
Profit from operation of warehousing facility	1,10,00,000	
Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations and capitalized in the books of account on 1.4.2019. Deduction is not available on expenditure incurred on acquisition of land] [₹ 93 lakhs – ₹ 13 lakhs]	80,00,000	
Business income of warehousing facility chargeable to tax		30,00,000
Total Income		50,00,000
Computation of tax liability		
Tax on ₹ 50,00,000		13,12,500
Add: Health and Education cess@4%		52,500
Total tax liability		13,65,000

Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2020-21

Particulars	₹	₹
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Total Income (as computed above)		50,00,000
Add: Deduction under section 10AA		30,00,000
		80,00,000
Add: Deduction under section 35AD	80,00,000	
Less: Depreciation u/s 32 [On building@10% of ₹ 80 lakhs ²]	8,00,000	72,00,000
Adjusted Total Income		1,52,00,000
Alternate Minimum Tax@18.5%		28,12,000
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		4,21,800
		32,33,800
Add: Health and Education cess@4%		1,29,352
Total tax liability		33,63,152
Tax Liability (Rounded off)		33,63,150

² Assuming the capital expenditure of ₹ 80 lakhs are incurred entirely on building. Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, the tax liability is ₹ 33,63,150.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	33,63,150
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	13,65,000
	19,98,150

Note: In the third para of the question, there is a difference between the figure of capital expenditure incurred in respect of warehouse i.e., ₹ 93 lakhs (including cost of land ₹ 13 lakhs) and the figure of capital expenditure capitalized in the books on 1.4.2019 i.e., ₹ 63 lakhs. It appears to be a typographical error, due to which the main solution has been worked out considering ₹ 93 lakhs as the amount capitalized in the books on 1.4.2019.

However, alternative answers have been worked out below considering ₹ 63 lakhs (being the figure as printed in the question paper) as the amount capitalized in the books on 1.4.2019. In Alternative 1, it has been assumed that the amount of ₹63 lakhs capitalized on 1.4.2019 does not include cost of land. In Alternative 2, it has been assumed that the amount of ₹ 63 lakhs capitalized on 1.4.2019 includes cost of land.

Alternative 1 (The amount of ₹ 63 lakhs capitalized on 1.4.2019 does not include cost of land)

Computation of total income and tax liability of Mr. Xavier for A.Y. 2020-21 (under the regular provisions of the Act)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	50,00,000	
Less: Deduction u/s 10AA	30,00,000	
[50,00,000 x 90,00,000 / 1,50,00,000 x 100%, since it is 5th year of manufacturing]		
Business income of SEZ unit chargeable to tax		20,00,000
Profit from operation of warehousing facility ³	1,10,00,000	
Less: Deduction u/s 35AD [Deduction@100% in respect	63,00,000	

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of the expenditure incurred prior to the commencement		
of its operations and capitalized in the books of account		
on 1.4.2019. It is assumed that the capitalized expenditure of ₹ 63 lakhs does not include cost of land]		
Business income of warehousing facility chargeable to tax		47,00,000
Total Income		67,00,000
Computation of tax liability		
Tax on ₹ 67,00,000		18,22,500
Add: Surcharge @10%		1,82,250
		20,04,750
Add: Health and Education cess@4%		80,190
Total tax liability		20,84,940

³ Since the question mentions ₹ 1,10,00,000 as the profit from operation of warehousing facility before claiming deduction u/s 35AD, it is assumed that said figure of profit is after providing depreciation u/s 32 on ₹ 17 lakhs, being the amount of capital expenditure not capitalized as on 1.4.2019 less cost of land (i.e., ₹ 93 lakhs – ₹ 63 lakhs = ₹ 30 lakhs – ₹ 13 lakhs (cost of land) = ₹ 17 lakhs)

Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2020-21

Particulars	₹	₹
Total Income (as computed above)		67,00,000
Add: Deduction under section 10AA		30,00,000
		97,00,000
Add: Deduction under section 35AD	63,00,000	
Less: Depreciation u/s 32 [On building @10% of ₹63 lakhs ⁴]	6,30,000	56,70,000
Adjusted Total Income		1,53,70,000
Alternate Minimum Tax@18.5%		28,43,450
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		4,26,518
		32,69,968
Add: Health and Education cess@4%		1,30,799
Total tax liability		34,00,767
Tax Liability (Rounded off)		34,00,770

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is payable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, the tax liability is ₹ 34,00,770.

⁴ Assuming the capital expenditure of ₹ 63 lakhs are incurred entirely on building

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	34,00,770
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	20,84,940
	13,15,830

Alternative 2 (The amount of ₹63 lakh capitalized includes cost of land)

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Computation of total income and tax liability of Mr. Xavier for A.Y. 2020-21 (under the regular provisions of the Act)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	50,00,000	
Less: Deduction u/s 10AA	30,00,000	
[50,00,000 x 90,00,000/1,50,00,000 x 100%, since it is 5th year of manufacturing]		
Business income of SEZ unit chargeable to tax		20,00,000
Profit from operation of warehousing facility ⁵	1,10,00,000	
Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations, and capitalized in the books of account on 1.4.2019. Deduction is not available on expenditure incurred on acquisition of land. It is assumed that the capitalized expenditure includes ₹ 13 lakhs of land] [₹ 63 lakhs – ₹ 13 lakhs]	50,00,000	
Business income of warehousing facility chargeable to tax		60,00,000
Total Income		80,00,000
Computation of tax liability		
Tax on ₹ 80,00,000		22,12,500
Add: Surcharge @10%		2,21,250
		24,33,750
Add: Health and Education cess@4%		97,350
Total tax liability		25,31,100

⁵Since the question mentions ₹ 1,10,00,000 as the profit from operation of warehousing facility before claiming deduction u/s 35AD, it is assumed that said figure of profit is after providing depreciation u/s 32 on ₹ 30 lakhs, being the amount of capital expenditure not capitalized as on 1.4.2019 (₹ 93 lakhs – ₹ 63 lakhs).

Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2020-21

Particulars	₹	₹
Total Income (as computed above)		80,00,000
Add: Deduction under section 10AA		30,00,000
		1,10,00,000
Add: Deduction under section 35AD	50,00,000	
Less: Depreciation u/s 32 [On building @10% of ₹ 50 lakhs ⁶]	5,00,000	45,00,000
Adjusted Total Income		1,55,00,000
Alternate Minimum Tax@18.5%		28,67,500
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		4,30,125
		32,97,625
Add: Health and Education cess@4%		1,31,905
Total tax liability		34,29,530

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Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, the tax liability is ₹ 34,29,530.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	34,29,530
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	25,31,100
	8,98,430

Question 13

Compute the deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2021-22. Mr. Dhyanchand, aged 65 years, is working with ABC Ltd. His income comprises of salary of ₹ 18,50,000 and interest on fixed deposits of ₹ 75,000. He submits the following particulars of investments and payments made by him during the previous year 2020-21:

- Deposit of ₹ 1,50,000 in public provident fund
- Payment of life insurance premium of ₹ 62,000 on the policy taken on 01.4.2017 to insure his life (Sum assured – ₹ 4,00,000).
- Deposit of ₹ 45,000 in a five year term deposit with bank.
- Contributed ₹ 2,10,000, being 15% of his salary (basic salary plus dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by ABC Ltd.
- On 1.4.2020, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years
- Incurred ₹ 46,000 towards medical expenditure of his father, aged 85 years, not dependent on him. No insurance policy taken for his father.
- He spent ₹ 6,000 for the preventive health-check up of his wife.
- He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability.(RTP May '19)

Answer 13

Deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2021-22

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid ₹ 62,000 (deduction restricted to ₹ 40,000, being 10% of ₹ 4,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)	40,000	
	Five year term deposit with bank	45,000	
		2,35,000	

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80CCD(1)	Restricted to Contribution to NPS of the Central Government, ₹ 1,60,000 [₹ 2,10,000 – ₹ 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [₹ 2,10,000 x 10/15] [See Note 1]		1,50,000
			1,40,000
			2,90,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), ₹ 2,90,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,40,000
80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4 th of lumpsum premium, since policies would be in force for four previous year	47,000	
	(b) Preventive health check up ₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family member is senior citizen)	<u>3,000</u>	
		50 000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	46,000	
	Total of (i) and (ii)	96,000	
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to		50,000
Deduction under Chapter VI-A			6,11,000

Notes:

- The deduction under section 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Dhyanchand to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,60,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,40,000.
- The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of ₹ 1,50,000 under section 80CCE.

Section - B

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Paper 3 - Taxation

Question 1

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- (i) During the financial year 2023-24, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- (iii) In order to be eligible to claim deduction under section 80C, investment/contribution/subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- (iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000.
- (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2023, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y. 2024-25.
- (vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 1

- (i) **The statement is correct.** The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.
- (ii) **The statement is correct.** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.
- (iii) **The statement is not correct.** There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- (iv) **The statement is not correct.** Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to ₹ 14,000.
- (v) **The statement is not correct.** The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2024-25.
- (vi) **The statement is not correct.** Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

Question 2

Examine the allowability of the following if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

- (i) Rajan, a resident individual, has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.

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- (ii) **Varun, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependant disabled.**
- (iii) **Hari, a resident individual, has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependant disabled.**

Answer 2

- (i) The deduction of ₹ 75,000 under section 80DD is allowable to Rajan, irrespective of the amount of expenditure incurred or paid by him. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (ii) The assessee Varun has deposited ₹ 25,000 for maintenance of dependent disabled. He is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (iii) Section 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/deposited is only ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.

Question 3

For the A.Y. 2024-25, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 8,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable under section 112 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2024, in a tax efficient manner.

Answer 3

**Computation of total income and tax liability of
Mr. Chaturvedi for the A.Y. 2024-25 under default tax regime**

Particulars	₹
Gross total income incl. long term capital gain	8,18,240
Less: Deductions under Chapter VI-A	-
No deduction would be available under default tax regime u/s 115BAC	
Total income	8,18,240
Tax on total income	
LTCG ₹ 2,45,000 x 20%	49,000
Balance total income ₹ 5,73,240	13,662
	62,662
Add: Health and Education cess @4%	2,506

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Paper 3 - Taxation

Total tax liability	65,168
Total tax liability (Rounded off)	65,170

**Computation of total income and tax liability of
Mr. Chaturvedi for the A.Y. 2024-25 under the
optional tax regime (i.e., the normal
provisions of the Act)**

Particulars	₹	₹
Gross total income incl. long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A		
Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 80G (See Notes 1 & 2 below)	17,662	
Under section 80TTB (See Note 3 below)	50,000	2,37,662
Total income (excluding long term capital gains)		3,35,578
Total income (including long term capital gains)		5,80,578
Total income (rounded off)		5,80,580
Tax on total income (including long-term capital gains of ₹ 2,45,000)		
LTCG ₹ 2,45,000 x 20%		49,000
Balance total income ₹ 3,35,580 (See Note 4 below)		1,779
		50,779
Add: Health and Education cess @4%		2,031
Total tax liability		52,810

Since the tax liability is lower under the optional tax regime (i.e., normal provisions of the Act) as compared to the default tax regime, Mr. Chaturvedi should exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Notes:

Computation of deduction under section 80G:

Particulars	₹
Gross total income (excluding long term capital	5,73,240

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Paper 3 - Taxation

gains)	
Less : Deduction under section 80C, 80D & 80TTB	2,20,000
	3,53,24
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section	35,324
Deduction under section 80G – 50% of ₹ 35,324	17,662

1. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
2. Deduction of upto ₹ 50,000 under section 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.
3. Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000.

Question 4

Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2023-24, furnishes you the following information:

- (i) Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - ₹ 50,000.
- (ii) Five-year post-office time deposit - ₹ 20,000.
- (iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate.
- (iv) Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.

Compute the total income of Mr. Rajmohan for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 4

Computation of total income of Mr. Raj Mohan for the A.Y.2022-23

Particulars	₹	₹
Gross Total Income		6,40,000
Less: Deduction under Chapter VI-A		
Under section 80C		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
Under section 80E		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
Under section 80G (See Note below)		
Donation to recognized charitable trust(50% of ₹ 25,000)	12,500	92,500
Total Income		5,47,500

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Note: In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction under section 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

Question 5

Compute the eligible deduction under Chapter VI-A for the A.Y. 2024-25 of Ms. Roma, aged 40 years, who has a gross total income of ₹ 15,00,000 for the A.Y. 2024-25 and provides the following information about her investments/payments during the P.Y. 2023-24:

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31-03- 2012 and sum assured is ₹ 4,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaim Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

Answer 5

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2024-25

Particulars	₹	₹
Deduction under section 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20 % of the sum assured, the policy being taken before 1.4.2012)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of ₹ 1,50,000	1,50,000	
Deduction under section 80CCC for payment towards LIC pension fund	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		1,50,000
Deduction under section 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and	25,000	

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dependent children restricted to		
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

Question 6

Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2023-24.

Particulars	Mr. Rudra (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2024 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2024-25, in the following situations:

- If both the units were set up and start manufacturing from 22-05-2015.
- If both the units were set up and start manufacturing from 14-05-2019.

Answer 6

Computation of deduction u/s 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Mr. Rudra from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

Since Mr. Rudra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction u/s 10AA.

The deduction u/s 10AA would be available only if Mr. Rudra furnishes report of chartered accountant before the date specified in section 44AB and files return of income on or before due date u/s 139(1).

Computation of eligible deduction under section 10AA:

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2015:

Since A.Y. 2024-25 is the 9th assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

= Profits of Unit in SEZ × Export turnover of unit in SEZ X 50%

Total turnover of unit in SEZ = 60 Lakhs X 300 Lakhs X 50 % = Rs. 22.50 lakhs
400 lakhs

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2024 which is ₹ 3,00,00,000.

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(ii) **If Unit in SEZ was set up and began manufacturing from 14-05-2019:**

Since A.Y. 2024-25 is the 5th assessment year from A.Y. 2020-21, relevant to the previous year 2019-20, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of unit in SEZ}} \times 100\%$$

$$= 60 \text{ Lakhs} \times \frac{300 \text{ Lakhs}}{400 \text{ Lakhs}} \times 100\% = \text{Rs. 45 lakhs}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction u/s 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000

Question 7: illustration

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- For grant of deduction under section 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.
- Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80QQB

Answer 7

- The statement is **not correct**. Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, inter alia, under section 80JJAA.
- The statement is **correct**. As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, inter alia, section 80QQB.

Question 8: illustration

Compute the eligible deduction under section 80C for A.Y.2024-25 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2023-24, the details of which are given hereunder, if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)-

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2021-22(₹)
(i)	30/3/2012	Self	8,00,000	48,000
(ii)	1/5/2018	Spouse	1,50,000	20,000
(iii)	1/6/2021	Handicapped son (section 80U)	4,00,000	80,000

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		disability)		
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Answer 8

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2023-24 (₹)	Deduction u/s 80C for A.Y.2024-25 (₹)	Remark (restricted to % of sum assured) (₹)
(i)	30/3/2012	Self	8,00,000	48,000	48,000	20%
(ii)	1/5/2018	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
Total					1,23,000	

Question 9: illustration

What would your answer if Mr. Ganesh pays tax under default tax regime under section 115BAC?

Answer 9

If Mr. Ganesh pays tax under default tax regime under section 115BAC, he would not be eligible for deduction under section 80C.

Question 10: illustration

An individual assessee, resident in India, has made the following deposit/payment during the previous year 2023-24:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2018) (Assured value ₹ 2,00,000)	25,000

What is the deduction allowable under section 80C for A.Y.2024-25 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Answer 10

Computation of deduction under section 80C for A.Y.2024-25

Particulars	₹
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,00,000, as the policy is taken after 31.3.2012)	20,000
Total	1,70,000
However, the maximum permissible deduction u/s 80C is restricted to	1,50,000

Question 11: illustration

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for

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retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be your answer if Mr. A pays tax under the default tax regime under section 115BAC?

Answer 11

- (i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]
- (a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.
- (b) Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction under section 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE. In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction under section 80CCD(1).

- (c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD (2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

Question 12 illustration

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Paper 3 - Taxation

The gross total income of Mr. X for the A.Y.2024-25 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2023-24 -

Particulars		₹
(1)	Contribution to PPF	1,10,000
(2)	Payment of tuition fees to Apeejay School, New Delhi, foreducation of his son studying in Class XI	45,000
(3)	Repayment of housing loan taken from Standard Chartered Bank	25,000
(4)	Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2024-25 if Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 12

Computation of deduction under Chapter VI-A for the A.Y.2024-25

Particulars		₹
Deduction under section 80C		
-	Contribution to PPF	1,10,000
-	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
-	Repayment of housing loan	25,000
		1,80,000
	Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction under section 80CCC		
-	Contribution to approved pension fund of LIC ₹ 1,05,000	1,05,000
		2,55,000
	As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000	
	Deduction allowable under Chapter VIA for the A.Y. 2022-23	1,50,000

Question 11: illustration

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2023-24 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2024-25 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 11

Deduction allowable under section 80D for the A.Y.2024-25

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	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid or medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).
- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

Question 13: illustration

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 2023-24 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaime policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2024-25 if Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 13**Deduction allowable under section 80D for the A.Y. 2024-25**

Particulars	₹	₹
(i) Medical insurance premium paid for self, spouse and dependent children	22,000	

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(ii)	Contribution to CGHS	6,000	
		28,000	
	restricted to		25,000
(iii)	Mediclaime premium paid for mother, who is over 60 years of age	33,000	
(iv)	Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	
		53,000	
	restricted to		50,000
			75,000

Question 14: illustration

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2024-25, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 14

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a "dependant" disabled person. Grandfather does not come within the meaning of "dependant" as defined under section 80DD.

Question 15: illustration

What will be the deduction if Mr. X had made this deposit for his dependant father?

Answer 15

Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

Question 16: illustration

Mr. B has taken three education loans on April 1, 2023, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

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Compute the amount deductible under section 80E for the A.Y.2024-25 if Mr. B has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 16

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination. Therefore, interest repayment in respect of all the above loans would be eligible for deduction. Deduction under section 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

Question 17: illustration

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India @ 11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2024-25 under the provisions of the Income-tax Act, 1961, assuming that the entire loan was outstanding as on 31.3.2022 and he does not own any other house property.

Answer 17

Particulars	₹
Interest deduction for A.Y.2024-25	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction under section 24(b) ₹ 3,85,000 [₹ 35,00,000 × 11%]	
(ii) Deduction under Chapter VI-A from Gross Total Income	2,00,000
Restricted to Deduction under section 80EE ₹ 1,85,000 (₹ 3,85,000 – ₹ 2,00,000) Restricted to	50,000

Question 18: illustration

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2022-23 –

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019

Paper 3 - Taxation

Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2024-25 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2024.

Answer 18

Particulars		₹
Mr. A		
Interest deduction for A.Y.2024-25		
(i)	Deduction allowable while computing income under the head "Income from house property"	
	Deduction u/s 24(b) ₹ 3,54,750 [₹ 43,00,000 × 9% × 11/12]	
	Restricted to	2,00,000
(ii)	Deduction under Chapter VI-A from Gross Total Income	
	Deduction u/s 80EEA ₹ 1,54,750 (₹ 3,54,750 – ₹ 2,00,000)	
	Restricted to	1,50,000
Mr. B		
Interest deduction for A.Y.2024-25		
(i)	Deduction allowable while computing income under the head "Income from house property"	
	Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%]	
	Restricted to	2,00,000
(ii)	Deduction under Chapter VI-A	
	Deduction u/s 80EEA is not permissible since: (i) loan is taken from NBFC	Nil
	(ii) stamp duty value exceeds ₹ 45 lakh.	
	Deduction under section 80EEA would not be permissible due to either violation listed above.	
Mr. C		
Deduction under Chapter VI-A		

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Paper 3 - Taxation

Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [$\text{₹ } 20 \text{ lakhs} \times 10\% = \text{₹ } 2,00,000$, restricted to $\text{₹ } 1,50,000$, being the maximum permissible deduction]	1,50,000
Mr. D	
Deduction under Chapter VI-A	
Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.	Nil

Question 19: illustration

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

- (i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000.
- (ii) Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.
- (iii) Donation to a public charitable institution ₹ 50,000 by way of cheque.
- (iv) LIC Pension Fund – ₹ 60,000.
- (v) Donation to National Children's Fund - ₹ 25,000 by way of cheque
- (vi) Donation to Jawaharlal Nehru Memorial Fund - ₹ 25,000 by way of cheque
- (vii) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
- (viii) Deposit in PPF – ₹ 1,00,000

Compute the total income of Mr. Shiva for A.Y. 2024-25 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 19**Computation of Total Income of Mr. Shiva for A.Y. 2024-25**

Particulars	₹	₹
Gross Total Income		7,75,000
Less: Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		

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Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		87,500
Total income		5,12,500

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	Jawaharlal Nehru Memorial Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
				87,500

Note - Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,00,000, in this case. ₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case. Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

Question 20: illustration

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2024-25 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 20

The deduction under section 80GG will be computed as follows:

- (i) Actual rent paid less 10% of total income
 $\text{₹ } 1,44,000 - \frac{(10 \times 4,60,000)}{100} = \text{₹ } 98,000 \text{ (A)}$
 25% of total income = $\frac{(25 \times 4,60,000)}{100} = \text{₹ } 1,15,000 \text{ (B)}$
- (ii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000 (C)
 Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

Question 21: illustration

During the P.Y. 2021-22, ABC Ltd., an Indian company,

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- (1) contributed a sum of ₹ 2 lakh to an electoral trust; and
- (2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for section 115BAA/115BAB.

Answer 21

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word “contribute” in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party. Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 under section 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party. It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

Question 22: illustration

Mr. A has commenced the business of manufacture of computers on 1.4.2023. He employed 350 new employees during the P.Y. 2023-24, the details of whom are as follows –

	No. of employees	Date of employment	Regular/Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2021	Regular	24,000
(ii)	125	1.5.2021	Regular	26,000
(iii)	50	1.8.2021	Casual	24,500
(iv)	100	1.9.2021	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2024-25, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2023?

Answer 22

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2024-25 and he has employed “additional employees” during the P.Y. 2023-24.

I If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below]
= ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:

Number of additional employees

Particulars	No. of workmen
-------------	----------------

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Total number of employees employed during the year			350
Less:	Casual employees employed on 1.8.2021 who do not participate in recognized provident fund	50	
	Regular employees employed on 1.5.2021, since their total monthly emoluments exceed ₹ 25,000	125	
	Regular employees employed on 1.9.2021 since they have been employed for less than 240 days in the P.Y.2021-22.	100	275
Number of "additional employees"			75

Notes -

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2023 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2023 do not qualify as additional employees for the P.Y.2023-24, since they are employed for less than 240 days in that year. Therefore, only 75 employees employed on 1.4.2023 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2023-24 is deemed to be the additional employee cost.
- (ii) As regards 100 regular employees employed on 1.9.2023, they would be treated as additional employees for previous year 2024-25, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2025-26.

II If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2021, since they have been employed for more than 150 days in the previous year 2021-22. Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000 Deduction under section 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000

Question 23: illustration

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2024 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2025. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 23

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income. Deduction u/s 80QQB would be ₹ 1,90,000 as calculated hereunder -

Deduction u/s 80QQB:	₹
Royalty ₹ 2,88,000 × 15/18 = ₹ 2,40,000	
Restricted to	

Paper 3 - Taxation

Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	<u>40,000</u>
Deduction u/s 80QCB	<u>1,90,000</u>

Question 24: illustration

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2023-24. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Answer 24

Computation of total income of Mr. A for A.Y.2024-25

Particulars	₹	₹
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C		
- Deposit in Public Provident Fund	1,50,000	
Under section 80TTB		
- Interest on fixed deposits with banks	30,000	
Restricted to	1,80,000	1,65,000
Total Income		1,20,000

Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction up to ₹ 50,000 under section 80TTB. Though the aggregate of deductions under Chapter VI-A is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings from lotteries of the assessee. Therefore, the maximum permissible deduction under Chapter VI-A = ₹ 2,85,000 - ₹ 1,20,000 = ₹ 1,65,000.

Question 25: illustration

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2022. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2024-25 from the following particulars, assuming that he does not opt for section 115BAC:

(i) Life insurance premium paid to Birla Sunlife Insurance in cash

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- amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2019 and the sum assured on life of his dependent parents is ₹ 2,00,000.
- (ii) Life insurance premium of ₹ 25,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.
- (iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2018 and the sum assured is ₹ 2,00,000.
- (iv) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- (v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- (vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- (vii) A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

Answer 25

Computation of total income of Mr. Gurnam for the Assessment Year 2024-25

Particulars	₹	₹	₹
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			5,64,500
Less: Deduction under Chapter VIA			
Under section 80C (See Note 1)			
- major son	19,500		
- self ₹ 22,500 restricted to 10% of ₹ 2,00,000	20,000	39,500	
Under section 80D (See Note 2)			
Premium paid for ₹ 26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 80TTA (See Note 4)			
Interest on savings bank account ₹ 14,500 restricted to		10,000	85,500
Total Income			4,79,000

Notes:

- (1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 25,000 paid as premium for life insurance

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of dependent parents of Mr. Gurnam. In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured. Therefore, in the present case, deduction of ₹ 25,500 is allowable in full in respect of life insurance of Mr. German's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ₹ 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

- (2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to ₹ 25,000. Further, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash. Therefore, in the present case, in respect of premium of ₹ 26,000 paid for health insurance of self and wife, deduction would be restricted to ₹ 25,000. Since the limit of ₹ 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of ₹ 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of ₹ 5,000.
- (3) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction under section 80G is not allowable in respect of **cash donation** of ₹ 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.
- (4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore, deduction of ₹ 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.

Question 26: illustration

Mr. Y furnishes you the following information for the year ended 31.3.2024

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2024	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A.Y. 2024-25, assuming that Mr. Y commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer 26

100% of the profit derived from export of articles or things or services is eligible

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for deduction under section 10AA, since F.Y. 2023-24 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

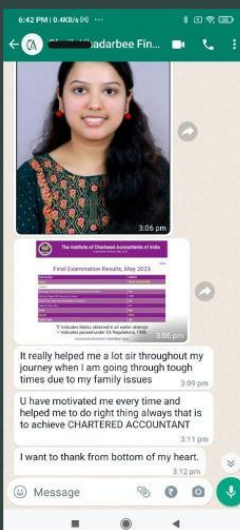
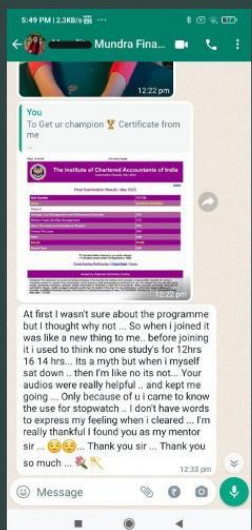
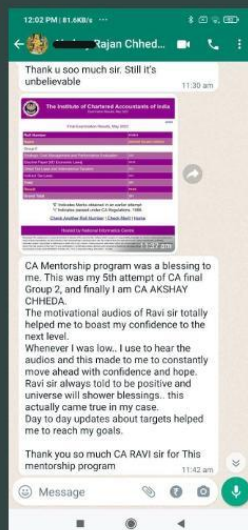
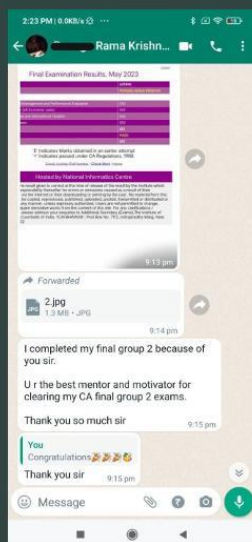
$$= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 100\%$$

$$= ₹ 30 \text{ lakhs} \times \frac{50}{100} \times 100\% = ₹ 15 \text{ lakhs}$$

Note – No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.

Paper 3 - Taxation

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Paper 3 - Taxation

Chapter 7

Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source

Attempt wise Distribution

Attempts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan '21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q5, Q18	Q8	Q9, Q13, Q14		Q10, Q17	Q11, Q12	Q7, Q15	Q16	Q6	
RTP			Q4		Q3, Q19, Q20		Q2			Q21		Q1
Q & A												
MTP	Q15, Q30	Q16, Q29	Q17, Q28	Q18, Q27	Q19, Q20		Q21, Q25	Q22, Q23, Q24, Q33	Q14, Q31, Q32	Q12, Q13	Q11, Q34, Q35	Q7
PYP		Q3, Q42		Q4, Q41	Q5, Q46	Q40	Q6	Q47	Q43	Q2, Q44, Q48	Q1	
RTP	Q10, Q26	Q9, Q36, Q37	Q8		Q38		Q45			Q39		

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. XYZ Ltd. is engaged in the manufacture of mobile phones with a brand name "JUST SAY". There are five dealers in Delhi and Mumbai to sell "JUST SAY" mobile phones. A Ltd., a dealer in Delhi, receives two mobile phones and X Ltd., a dealer in Mumbai, receives one mobile phone from XYZ Ltd. in January, 2023 on achieving the sales target in the third quarter of 2022-23. The manufacturing cost of each such mobile phone is ₹ 15,000 while the MRP is ₹ 25,000. The price charged from the customers for such mobile phone is after providing 22% discount on MRP. Is XYZ Ltd. liable to deduct tax at source before giving mobile phones to A Ltd. and X Ltd.? And if yes, how much?
- (a) Yes; ₹ 3,900 from A Ltd. and No TDS from X Ltd.
 (b) Yes; ₹ 3,000 from A Ltd. and No TDS from X Ltd.
 (c) Yes; ₹ 5,000 from A Ltd. and ₹ 2,500 from X Ltd.
 (d) Yes; ₹ 3,900 from A Ltd. and ₹ 1,950 from X Ltd.
- (RTP Nov '23)

Ans: (a)

2. Dr. Sargun, maintained two bank A/c's, one current A/c with Canara Bank for her profession and a Saving Bank A/c with State Bank of India. The following are the details of her withdrawals from these A/c during the previous year 2020-

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21:

Date of withdrawals	Canara Bank	State Bank of India
25.04.2020	25,00,000	
27.04.2020		15,50,000
31.08.2020	29,00,000	
01.09.2020	14,20,000	
05.09.2020		14,00,000
07.10.2020	18,21,000	
11.12.2020	26,23,000	
12.02.2021	7,56,000	
25.03.2021		16,13,000

She furnished her return of income for the A.Y. 2020-21 and A.Y. 2019-20 on or before the time limit prescribed u/s 139(1). However, for the A.Y. 2018-19 and A.Y. 2017-18, she has furnished her return of income belatedly.

Is any tax deductible at source u/s 194N on the withdrawals made by Dr. Sargun from Canara Bank and SBI Bank? If yes, at what rate and what amount?

- TDS is deductible at source on ₹ 33,79,000 @ 5% by Canara Bank and no tax is deductible by SBI.
- TDS is deductible at source on ₹ 20,20,000 @ 5% by Canara Bank and no tax is deductible by SBI.
- TDS is deductible at source on ₹ 20,20,000 @ 2% by Canara Bank and no tax is deductible by SBI.
- TDS is deductible at source on ₹ 75,00,000 @ 5% and on ₹ 20,20,000 @ 2% by Canara Bank and tax is deductible at source @5% on ₹25,63,000 by SBI. **(RTP May '21)**

Ans: (c)

3. 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:

- ₹ 1,080
- ₹ 860
- ₹ 1,620
- ₹ 840 **(RTP Nov '20)**

Ans: (b)

4. Mr. P is a professional who is responsible for paying a sum of ₹ 2,00,000 as rent for use of building to Mr. Harshit for the month of February, 2019. The gross receipts of Mr. P are as under:

From 01.04.2017 to 31.03.2018: ₹ 55,00,000

From 01.04.2018 to 28.02.2019: ₹ 45,00,000

Find out whether Mr. P is responsible for deducting any tax at source from the rent of ₹ 2,00,000 payable to Mr. Harshit.

- Tax at source is required to be deducted u/s 194-I at the rate of 10%.
- Tax at source is required to be deducted u/s 194-IB at the rate of 5%.
- Tax at source is required to be deducted u/s 194-IB at the rate of 10%.
- No tax is required to be deducted at source. **(RTP May '19)**

Ans: (a)

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5. A, a resident individual, is engaged in the business of money lending. For the purpose of lending money to various persons, a borrows money from other persons. As a part of his business, a took a loan from B of an amount of Rs.10 lacs. B is a non-resident. On the said loan, A paid an amount of Rs.1 lac as interest during the P.Y. 2018-19 to B in India. A did not deduct tax at source while crediting/paying the interest amount to B. A is of the view that the amount of Rs.1 lac shall be allowed to him as a deduction under the Income-tax Act, 1961. Whether A's view is correct?

- Correct, interest expenses incurred for business are allowed as deduction u/s 36(1)(iii).
- Incorrect, as tax at source has not been deducted by A on the interest amount, full amount of interest of Rs.1 lac shall be disallowed in A.Y. 2019-20.
- Incorrect, as tax at source has not been deducted by A on the interest amount, amount of interest of Rs. 30,000 shall be disallowed in A.Y. 2019-20.
- Correct, interest expenses incurred for business are allowed as deduction u/s 37(1).
(MTP 1 Mark, March'19)

Ans: (b)

6. An amount of ₹ 60,000 was paid to Mr. Samar on 1.7.2022 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 75,000 was due to Mr. Samar on 28.02.2023, from which tax @10% (amounting to ₹ 13,500) on the entire amount of ₹ 1,35,000 was deducted and the net amount was paid on the same day to Mr. Samar. However, this tax of ₹ 13,500 was deposited only on 22.6.2023. The interest chargeable under section 201(1A) would be:

- ₹ 480
- ₹ 1,290
- ₹ 1,260
- ₹ 810 (MTP 2 Marks March '23)

Ans: (b)

7. Mr. Kumar made the following cash withdrawals during the P.Y.2021-22 -

Date	Amount	From
1.6.2021	₹ 70 lakhs	Canara Bank
1.7.2021	₹ 45 lakhs	HDFC
1.8.2021	₹ 50 lakhs	Canara Bank
1.9.2021	₹ 15 lakhs	HDFC
1.10.2021	₹ 60 lakhs	Repc Bank (Co-operative Bank)
1.11.2021	₹ 10 lakhs	SBI
1.12.2021	₹ 10 lakhs	Repc Bank
2.1.2022	₹ 15 lakhs	HDFC
10.1.2022	₹ 15 lakhs	HDFC
20.1.2022	₹ 20 lakhs	Repc Bank
1.2.2022	₹ 15 lakhs	Repc Bank
10.2.2022	₹ 75 lakhs	SBI
20.2.2022	₹ 15 lakhs	HDFC
1.3.2022	₹ 15 lakhs	SBI

Which of the above banks are required to deduct tax at source on cash withdrawals made by Mr. Kumar in the P.Y.2021-22 if he regularly files his return of income?

- Canara Bank & HDFC
- HDFC, SBI & Repco
- HDFC, Repco & Canara Bank

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(d) HDFC & Repco

(MTP 2 Marks April 22)**Ans: (c)**

8. Which of the following details/evidences are required to be furnished by an employee to his/her employer in respect of deduction of interest under the head "Income from house property", when the employer is estimating the total income of the employee for the purpose of tax deduction at source u/s 192?

- (i) Amount of Interest payable or paid
- (ii) Rate of interest payable or paid
- (iii) Name of the lender
- (iv) Address of the lender
- (v) PAN of the lender
- (vi) TAN of the lender

- (a) (I), (iii), (v)
- (b) (I), (iii), (iv), (v)
- (c) (ii), (iv), (v), (vi)
- (d) (I), (ii)

(MTP 2 Marks, Oct'19)**Ans: (b)**

9. Mr. Ram acquired a house property at Chennai from Mr. Satyam, a resident, for a consideration of Rs.85 lakhs, on 23.8.2019. On the same day, Mr. Ram made two separate transactions, thereby acquiring an urban plot in Gwalior from Mr. VI pun for a sum of Rs.50 lakhs and rural agricultural land from Mr. Danish for a consideration of Rs.75 lakhs. Which of the following statements are correct?

- (a) No tax deduction at source is required in respect of any of the three payments.
- (b) TDS@1% is attracted on all the three payments.
- (c) TDS@1% on Rs.85 lakhs and Rs.50 lakhs are attracted. No TDS on payment of Rs.75 lakhs for acquisition of rural agricultural land
- (d) TDS@1% on Rs.85 lakhs is attracted. No TDS on payments of Rs.50 lakhs and Rs.75 lakhs.

(MTP 2 Marks, May'20)**Ans: (c)**

10. TPR & Co., a partnership firm selling its product X through the digital facility provided by MKY Limited (an E-commerce operator). MKY Limited has credited in its books of account, the account of TPR & Co. on 31st January, 2021 by sum of Rs. 4,80,000 for the sale of product X made during the month of January 2021. Out of Rs. 4,80,000, it made payment for Rs. 4,00,300 on 3rd February, 2021. Further, Mr. Pawn, who purchased the product X through the facility provided by MKY Limited, has made the payment of sum of Rs. 40,000 directly to TPR & Co. on 15th January, 2021. Which statement is correct regarding requirement of deduction of tax at source by MKY Limited?

- (a) No tax is required to be deducted at source.
- (b) MKY Limited is required to deduct tax at source Rs. 4,800 under section 194C.
- (c) MKY Limited is required to deduct tax at source Rs. 3,900 under section 194O.
- (d) MKY Limited is required to deduct tax at source Rs. 5,200 under section 194O.

(MTP 2 Marks, March'21)**Ans: (c)**

11. While deciding liability of an individual to deduct tax on payment of fees for professional services, which of the following is immaterial -

- (a) Amount paid to professional
- (b) Turnover of financial year immediately preceding financial year in which payment

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- (c) Turnover of financial year in which payment is made
 (d) Amount of fees for professional services **(MTP 1 Marks, Oct'21)**

Ans: (c)

12. Mr. Prakash is employed with XYZ Ltd. from 05.11.2017. He resigned on 31.03.2022 and also withdrew a sum of Rs. 55,000, being the accumulated balance of employer's contribution in his EPF Account, on the same date. The tax would be deducted -

- (a) Rs. 500 u/s 192
 (b) Rs. 5,500 u/s 192
 (c) Rs. 4,125 u/s 192A
 (d) Rs. 5,500 u/s 192A **(MTP 2 Marks, Nov'21)**

Ans: (d)

13. Mr. Ajay Sadhu, proprietor of M/s Blue Bird Enterprises having turnover of ₹ 65 lakhs and not subject to tax audit under the Income-tax Act, 1961 during P.Y. 2018-19, has received two bills for payment. The first bill is for ₹ 42,00,000 from Vijay Associates, an advocate and property dealer firm, for his daughter's hearing and ₹ 21,00,000 from same Vijay Associates for brokerage service provided in relation to purchase of one property. Both bills were raised on 21-12-2019 but payment were made in instalments. 1st Instalment of ₹ 5,00,000 as advance was payment on 15 11-2019, 2nd Instalment of ₹ 45,00,000 on 25-03-2020 and balance amount ₹ 13,00,000 on 11-05-2020. Determine the TDS liability for Mr. Ajay Sadhu, if any, for A.Y. 2020-21?

- (a) ₹ 2,50,000
 (b) ₹ 3,15,000
 (c) ₹ 65,000
 (d) Nil **(MTP 2 Marks, Oct'20)**

Ans: (b)

14. Mr. A has two bank accounts maintained with ICICI Bank and HDFC Bank. From 01.09.2019 till 31.03.2020, Mr. A withdrew the following amounts as cash from both the said accounts; HDFC Bank: Rs.50 Lakh ICICI Bank: Rs.120 Lakh Compute the amount of tax to be deducted at source u/s 194N by HDFC Bank and ICICI Bank, respectively, while making payment in cash to Mr. A.

- (a) Rs.1,00,000 and Rs.2,40,000
 (b) Nil and Rs. 40,000
 (c) Nil and Rs.2,40,000
 (d) Rs. 50,000 and Rs.1,20,000 **(MTP 1 Mark, May'20)**

Ans: (b)

15. Mr. Jai, a resident Indian aged 60 years, won ₹ 9 lakhs and Mr. Veeru, resident Indian aged 55 years, won ₹ 8 lakhs from lotteries. Tax deductible at source under section 194B was duly deducted. Assuming that this is the only source of income of Mr. Jai and Mr. Veeru for A.Y.2022 -23, are Mr. Jai and Mr. Veeru liable to pay advance tax for that year?

- (a) No, Mr. Jai and Mr. Veeru are not liable to pay advance tax
 (b) Yes, Mr. Jai and Mr. Veeru are liable to pay advance tax
 (c) Mr. Jai is liable to pay advance tax but Mr. Veeru is not liable to pay advance tax
 (d) Mr. Veeru is liable to pay advance tax but Mr. Jai is not liable to pay advance tax
(MTP 2 Marks March 22)

Ans: (a)

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16. Mr. Harish is an interior decorator declaring profits under 44ADA in the P.Y.2021-22 and the earlier previous years. Mr. Harish has to pay brokerage of ₹ 15 lakhs to Mr. Patel, a broker, to buy a residential house, and ₹ 50 lakhs to Mr. Suresh, a contractor for reconstruction of the residential house. Are TDS provisions attracted in the hands of Mr. Harish in respect of the above transactions?

- No; TDS provisions are not attracted in the hands of Mr. Harish in respect of payments to Mr. Patel and Mr. Suresh
- Yes; Mr. Harish has to deduct tax from payment to Mr. Patel and Mr. Suresh
- Mr. Harish does not have to deduct tax on payment to Mr. Patel but has to deduct tax from payment to Mr. Suresh
- Mr. Harish does not have to deduct tax on payment to Mr. Suresh but has to deduct tax from payment to Mr. Patel

(MTP 2 Marks) (Oct'22)

Ans: (a)

17. Mr. Vyas, aged 80, is a retired government employee. On 1st April 2020, he received the maturity amount of his LIC policy amounting to Rs. 3,50,000. This policy was taken by Mr. Vyas on 1st April 2013 on which the sum assured was Rs. 3,00,000 and the annual premium was Rs. 40,000. His other income comprised of pension amounting to Rs. 85,000. Mr. Vyas furnishes a declaration in Form 15H for non-deduction of tax at source to the insurance company stating that his net tax liability for the year is NIL.

Choose the correct statement from below:

- The declaration made by Mr. Vyas is wrong and the insurance company has to deduct tax of Rs. 3,500 under section 194DA.
- The claim by Vyas is right and insurance company is not required to deduct tax at source.
- The insurance company has to deduct tax under section 194DA since declaration in Form 15H cannot be made for tax deduction under section 194DA.
- The declaration made by Mr. Vyas is wrong and the insurance company has to deduct tax of Rs. 1,000 under section 194DA.

(MTP 2 Marks, March'21)

Ans: (b)

18. Mr. Kabir (a non-resident and aged 70 years) is a retired person, earning rental income of Rs. 45,000 per month from a property located in Mumbai. He is residing in Canada. Apart from rental income, he does not have any other source of income. Is he liable to pay advance tax in India?

- Yes, he is liable to pay advance tax in India as he is a non-resident and his tax liability in India exceeds Rs. 10,000.
- No, he is not liable to pay advance tax in India as his tax liability in India is less than Rs. 10,000.
- No, he is not liable to pay advance tax in India as he is a senior citizen and has no income chargeable
- under the head "Profits and gains of business or profession".
- Both (b) and (c)

(MTP 2 Marks, April'19)

Ans: (b)

19. Mr. Jha, an employee of FX Ltd, attained 60 years of age on 15.05.2018. He is resident in India during F.Y. 2018-19 and earned salary income of ₹5 lacs (computed). During the year, he earned ₹ 7 lacs from winning of lotteries. Compute his advance tax liability for A.Y. 2019-20:

- ₹ 2,20,000 + Cess ₹ 8,800 = ₹2,28,800, being the tax payable on total income of ₹12 lacs

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- (b) ₹ 2,10,000 + Cess ₹ 8,400 = ₹2,18,400, being the tax payable on lottery income of ₹7 lacs
- (c) ₹ 10,000 + Cess ₹400 = ₹ 20,400, being the tax payable on salary income, since tax would have been deducted at source from lottery income.
- (d) Nil **(RTP May '20)**

Ans: (d)

20. Mr. Nihar maintains a Savings A/c and a Current A/c in Mera Bank Ltd. The details of withdrawals on various dates during the previous year 2019 -20 are as follows:

Date of Cash withdrawal	Saving Account	Current account
05.04.2019	15,00,000	-
10.05.2019	-	22,00,000
25.06.2019	20,00,000	-
17.07.2019	-	5,00,000
28.10.2019	35,00,000	-
10.11.2019	-	38,00,000
12.12.2019	25,00,000	-

Is Mera Bank Limited required to deduct tax at source on the withdrawals made by Mr. Nihar during the previous year 2019-20? If yes, what would the amount of tax deducted at source?

- (a) No, TDS is not required to be deducted as the aggregate cash withdrawal on or after 1.9.2019 does not exceed ₹ 1 crore
- (b) No, TDS is not required to be deducted as the cash withdrawal does not exceed ₹ 1 crore neither in saving account nor in current account
- (c) TDS of ₹ 60,000 is required to be deducted.
- (d) TDS of ₹ 1,20,000 is required to be deducted. **(RTP Nov '20)**

Ans: (d)

21. Mrs. Kajal, the General Manager of M/s Gold Ltd. was paid a salary ₹ 4,50,000 per month. The above salary includes non-monetary perquisite of ₹ 50,000 per month. As per the terms of employment, tax on non-monetary perquisite is to be borne by M/s Gold Ltd. Mrs. Kajal's contribution towards PPF is ₹ 1,50,000. What would be the amount of tax to be deducted by M/s Gold Ltd. from the salary of Mrs. Kajal if she intimated M/s Gold Ltd. to opt for provisions of section 115BAC for A.Y. 2022-23?

- (a) ₹ 13,80,427
- (b) ₹ 15,52,980
- (c) ₹ 12,54,936
- (d) ₹ 13,88,970 **(RTP Nov'22)**

Ans: (a)**Question & Answers****Question 1****Answer the following:**

- (A) Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On 1st December 2022, XYZ Ltd., an Indian company manufacturer of electronic cars gave her a brand new car having fair market value of ₹ 6 lakhs to promote on her social media page. She used that car for**

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7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction.

- (B) Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him:**

₹ 25,00,000/- on 10th August, 2022 and ₹ 30,00,000 on 22nd November, 2022. Determine the amount of tax to be deducted/ collected at source, if any.

Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes.

- (C) By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received ₹ 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement. (PYP 7 Marks May '23)**

Answer 1

- (i) Under section 194R, the person who is responsible for providing to a resident, any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession by such resident, has to first ensure deduction of tax @10% of the value of such benefit or perquisite, if the same exceeds ₹ 20,000. However, in case of benefit or perquisite being a product like car, mobile etc. if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R.

Accordingly, in the present case, since Miss Tara has returned the car to XYZ Ltd., TDS provisions under section 194R would not apply.

- (ii) The provisions of section 194C would not apply in the hands of Ms. Aruna since the amount paid to Mr. Suresh is for supply of her housing staff. Hence, it is used exclusively for her personal purposes.

In this case, tax is required to be deducted at source from such amount under section 194M @5%, since the aggregate payment made to Mr. Suresh for the said contract exceeds ₹ 50 lakhs during the P.Y.2022-23.

Accordingly, ₹ 2,75,000, being 5% of ₹ 55,00,000 [₹ 25,00,000 + ₹ 30,00,000], is required to be deducted at source.

In case Ms. Aruna made payment to Mr. Suresh for business purposes and she is not required to get her books of account audited [assuming her turnover from such business does not exceed ₹ 1 crore in P.Y. 2021-22], she is not required to deduct tax at source under section 194C. In such case also, she is required to deduct tax at source of ₹ 2,75,000 under section 194M.

Note – In the question, it is mentioned that Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year. However, whether the provisions of section 194C would be attracted are dependent on whether the turnover of business carried on by her during the financial year immediately preceding the financial year in which the sum credited or paid exceeds ₹ 1 crore. In the absence of this information, it is possible that audit may not be required in her case due to the following reasons-

- her turnover exceeds ₹ 1 crore but does not exceed ₹ 10 crores and receipts and payments in cash does not exceed 5% of such receipts or payments, respectively.
- her turnover exceeds ₹ 1 crore but does not exceed ₹ 2 crore and she is declaring profits under the presumptive provisions of section 44AD.

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Accordingly, following alternate answer is also possible based on the assumption that turnover of Ms. Aruna's business exceeds ₹ 1 crore.

Alternative answer - In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2021-22, she would be required to deduct tax at source @1% under section 194C amounting to ₹ 55,000 (since payment is made to Mr. Suresh, an individual) of ₹ 55,00,000.

- (iii) According to section 194C, the definition of "work" include catering. In the present case, nationalised bank is required to deduct tax source @2% on ₹ 7,20,000 [₹ 60,000 x 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of ₹ 60,000 paid every month exceeds the threshold of ₹ 30,000. Therefore, nationalised bank is required to deduct tax at source of ₹ 1,200 per month amounting to ₹ 14,400 for the year.

Question 2

Examine the applicability and the amount of TDS to be deducted in the following cases for F.Y. 2021-22:

- (i) **S and Co. Ltd. paid ₹ 25,000 to one of its Directors as sitting fees on 02-02-2022.**
- (ii) **₹ 2,20,000 paid to Mr. Mohan, a resident individual, on 28 -02-2022 by the State of Haryana on compulsory acquisition of his urban land.**
- (iii) **Mr. Purushotham, a resident Indian, dealing in hardware goods has a turnover of ₹ 12 crores in the previous year 2020-21. He purchased goods from Mr. Agarwal a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2021-22 on various dates is ₹ 80 lakhs which are as under:**

10-06-2021	₹ 25,00,000
20-08-2021	₹ 27,00,000
12-10-2021	₹ 28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2022 ₹ 80 lakh. Mr. Agarwal's turnover for the financial year 2020-21 is ₹ 20 crores. (PYP 6 Marks Nov '22)

Answer 2

- I. Tax @10% has to be deducted by S and Co. Ltd. under section 194J on directors sitting fees of ₹ 25,000. The threshold limit of ₹ 30,000 is not applicable in respect of sum paid to a director.
The amount of tax to be deducted at source = ₹ 25,000 x 10% = ₹ 2,500
- II. There is no liability to deduct tax at source under section 194LA, since the payment to Mr. Mohan, a resident, by State of Haryana on compulsory acquisition of his urban land does not exceed ₹ 2,50,000.
- III. Since Mr. Purushotham's turnover for F.Y.2020-21 exceeds ₹ 10 crores, and value of goods purchased from Mr. Agarwal, a resident seller, exceeds ₹ 50 lakhs in the P.Y.2021-22, he is liable to deduct tax@0.1% on ₹ 30 lakhs (being the sum exceeding ₹ 50 lakhs), at the time of credit or payment, whichever is earlier.
On 10.6.21= Nil (No tax is to be deducted u/s 194Q on the purchases made on 10.6.2021 since the purchases made till that date has not exceeded the threshold of ₹ 50 lakhs and TDS provisions u/s 194Q was effective from 1.7.2021)
On 20.8.2021 = 0.1% of ₹ 2 lakhs (amount exceeding ₹ 50 lakhs) = ₹ 200
On 12.10.2021 = 0.1% of ₹ 28 lakhs = ₹ 2,800.

Question 3

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Mr. Dhanapal wishes to purchase a residential house costing ` 60 lakhs from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area for ` 65 lakhs. He wants to know whether there will be any obligation to deduct tax at source in these two situations. Both the buyer as well as the sellers are residents in India. Advise Mr. Dhanapal suitably. (PYP 2 Marks, Nov'18)

Answer 3

Since the sale consideration of residential house exceeds ` 50 lakh, Mr. Dhanapal is required to deduct tax at source @1% of sale consideration of ` 60 lakh under section 194-IA.

TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land, even if the consideration exceeds ` 50 lakh.

Question 4

What are the clarifications given by CBDT with respect to section 206C(1F) relating to following issues:

- (i) **Whether TCS on sale of motor vehicle is applicable only to luxury car?**
- (ii) **Whether TCS is applicable on each sale or aggregate value of sale of motor vehicle, exceeding ` 10 lakhs?**
- (iii) **Whether TCS is applicable in case of an individual?**
- (iv) **Whether TCS on sale of motor vehicle is at retail level also or only by manufacturer to distributor or dealer? (PYP 4 Marks, Nov'19)**

Answer 4

- (i) No, as per section 206C(1F), the seller shall collect tax @ 1% from the purchaser on sale of any motor vehicle of the value exceeding ` 10 lakhs.
- (ii) Tax is to be collected at source @ 1% on sale consideration of a motor vehicle exceeding ` 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.
- (iii) The term "seller" includes inter alia, an individual who is liable to audit as per the provisions of section 44AB during the financial year immediately preceding the financial year in which the motor vehicle is sold. Thus, an individual shall be liable for collection of tax at source on sale of motor vehicle by him.
- (iv) TCS on sale of motor vehicle is applicable on all transactions of retail sales only. Accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

Question 5

Briefly explain the provisions relating to tax deduction at source on cash withdrawal under section 194N of the Income-tax Act, 1961. (PYP 4 Marks, Nov'20)

Answer 5

- (1) Section 194N, inserted with effect from 1.9.2019, requires that every person, being
 - a banking company
 - a co-operative society engaged in carrying on the business of banking or
 - a post office
 who is responsible for paying any sum or aggregate of sums in cash exceeding ` 1 crore during the previous year to any person from one or more accounts maintained by such recipient-person with it, to deduct tax at source @2% of sum exceeding ` 1 crore.
- (2) This deduction is to be made at the time of payment of such sum.
- (3) Liability to deduct tax at source under section 194N shall not be applicable to any payment made to –
 - the Government

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- any banking company or co-operative society engaged in carrying on the business of banking or a post-office
- any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking
- any white label ATM operator of a banking company or co-operative society engaged in carrying on the business of banking
- such other person or class of persons notified by the Central Government in consultation with the RBI.

Question 6

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payments are made to residents.

S. No.	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y. 2020-21 (Amt. in `)
(A)	Mr. Kale, receiving pension from Central Government	Contractual payment made during April 2020 for reconstruction of his residential house in Arunachal Pradesh	52,50,000
(B)	Mr. Rahul, a wholesale trader of spices whose turnover was ` 5 crores F.Y. 2019-20	Contract payment for construction of office go down during January to March 2021 to Mr. Achilles, an individual	50,00,000
(C)	Mr. Golu, an individual carrying garment trading business with turnover of `95 lakhs in F.Y. 2019-2020	Payment of commission to Mr. Vinay for securing a contract from a big business house in November 2020	1,20,000
(D)	XYZ Urban Co-operative bank	Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting ` 1.2 crores during Financial Year 2020-21. ABC & Co. has filed its tax returns for the last 3 financial years with in time.	1,20,00,000

(PYP 8 Marks, July'21)

Answer 6

- (i) Mr. Kale, being a pensioner, would not be liable to deduct tax at source under section 194C. However, he has to deduct tax at source @ 5% u/s 194M, since the aggregate amount of payment to the contractor for his personal purposes i.e., for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of ` 50,00,000. Therefore, TDS u/s 194M would be = ` 52,50,000 x 5% = ` 2,62,500.
- (ii) Mr. Rahul is required to deduct tax at source u/s 194C, since his turnover from

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business in the financial year 2019-20, being the financial year immediately preceding F.Y.2020-21 in which such sum is paid, exceeds ₹ 1 crore. Tax is to be deducted at source at the rate 1% as the payment is made to an Individual. However, since payment is made during the period 14.05.2020 and 31.3.2021, tax is to be deducted at the reduced rate of 0.75%. Therefore, TDS u/s 194C would be = ₹ 50,00,000 x 0.75% = ₹ 37,500

- (iii) Tax is required to be deducted u/s 194H, if the payer is an individual whose turnover from business carried on by him in the financial year immediately preceding the financial year in which commission is paid, exceeds ₹ 1 crore. However, where TDS u/s 194H is not applicable, tax is required to be deducted u/s 194M where payment of commission during the relevant previous year exceeds ₹ 50 lakhs

In the present case, Mr. Golu is not required to deduct tax at source u/s 194H on the commission paid to Mr. Vinay in the P.Y.2020 -21 since his turnover from his business does not exceed ₹ 1 crore during the P.Y. 2019-20. Further, Mr. Golu is also not required to deduct tax at source u/s 194M on the said commission paid to Mr. Vinay since the commission paid does not exceed ₹ 50 lakhs during the P.Y. 2020-21.

- (iv) A co-operative bank which is responsible for paying any sum, being the amount or aggregate of amounts, as the case may be, in cash exceeding ₹ 1 crore during the previous year, to any person from an account maintained by such person with it, has to deduct an amount equal to 2% of such sum, as income-tax at the time of payment. Accordingly, since XYZ Urban Co-operative is responsible for paying a sum exceeding ₹ 1 crore (₹ 1.2 crore, in this case) in cash to ABC & Co., a partnership firm, during the F.Y.2020-21, the bank is required deduct tax at source @ 2% of such sum. Therefore, TDS u/s 194N would be = ₹ 20,00,000 x 2% = ₹ 40,000.

Question 7

(a) Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- (i) **Mr. Kunal received a sum of ₹ 10,20,000 on 28.02.2021 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.**
- (ii) **Indian Bank sanctioned and disbursed a loan of ₹ 12 crores to B Ltd. on 31-12-2020. B Ltd. paid a sum of ₹ 1,20,000 as service fee to Indian Bank for processing the loan application.**
- (iii) **Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2020 to February, 2021) at Mumbai where he pays a monthly house rent of ₹ 32,000 for those five months, totalling to ₹ 1,60,000. Rent is paid by him on the first day of the relevant month.**

(b) Mr. Subhash engaged in the business of trading of electrical appliances. His turnover for F.Y. 2019-20 and F.Y. 2020-21 was ₹ 12 crore and 9.5 crore, respectively. During the previous year, XYZ Ltd. placed order for purchase of electric appliances for ₹ 55 lakhs on 01.08.2020. He again placed order for ₹ 35 lakhs on 01.11.2020. Mr. Subhash delivered both the orders within 15 days of receipt of orders. Discuss, whether Mr. Subhash is required to collect tax at source, on the consideration received from XYZ Ltd.

(RTP May '21, MTP 8 Marks Sep '23)

Answer 7

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(a) TDS implications

(i) On pre-mature withdrawal from EPF

No tax is deductible under section 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On payment of service fee to bank

Even though service fee is included in the definition of "interest" under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

(iii) On payment of rent by a salaried individual

Mr. Agam, a salaried individual, is not liable to deduct tax at source @5% under section 194-IB on ₹ 1,60,000 (being rent for 5 months from October 2020 to February 2021) from the rent of ₹ 32,000 payable on 1st day of every month, since the monthly rent does not exceed ₹ 50,000.

(b) As per section 206(1H), tax is required to be collected at source @0.1% (@0.075%, if payment is received during the period between 14.5.2020 to 31.3.2021) on the sale consideration exceeding ₹ 50 lakhs at the time of receipt of consideration. Tax is required to be collected at source by a seller, being a person whose total turnover from the business exceeds ₹ 10 crore during the financial year immediately preceding the financial year in which sale of goods is carried out. Since, section 206C(1H) is applicable w.e.f. 1st October, 2020, tax is not required to be collected at source on any sale consideration received before 1st October, 2020, even though such amount exceeds the threshold limit of ₹ 50 lakhs. Section 206C(1H), would apply on sale consideration (including advance received for sale) received on or after 1st October, 2020.

Since the threshold of ₹ 50 lakhs is with respect to the previous year, calculation of receipt of sale consideration for triggering TCS under section 206C(1H) shall be computed from 1st April, 2020. Hence, in the present case, since Mr. Subhash has sold electric appliance for sale consideration or in aggregate of such consideration, exceeding ₹ 50 lakhs, TCS is required to be collected at source @0.075%, on amount of ₹ 35 lakhs, being the amount of consideration received after 01.10.2020.

Question 8

Mr. Narayan is engaged in the retail business of groceries. During the previous year 2018-19 his turnover was ₹ 1.65 crores. Out of this, receipt of ₹ 1.30 crore represents online transactions and ₹ 35 lakhs cash transactions. He opted for paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during the previous year.

Is he liable to pay advance tax and if so, what is the minimum amount of advance tax to be paid and the due date for payment of such advance tax? (RTP May '19)

Answer 8

Computation of advance tax liability in the hands of Mr. Narayan opting for presumptive taxation scheme under section 44AD

Particulars	₹
As per section 211, an eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of an eligible business referred to in section 44AD, shall be required to pay advance tax of the whole amount in one instalment on or before 15th March of the financial year. Thus, Mr. Narayan is required to pay advance tax by 15th of March 2019.	
However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during that financial year on or	

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before 15th March.		
The advance tax liability is computed as follows –		
Business Income		
8% of ₹ 35,00,000	2,80,000	
6% of ₹ 1,30,00,000	7,80,000	10,60,000
In respect of the amount of turnover received by account payee cheque/bank draft or use of ECS through a bank account, the assessee can declare 6% (instead of 8%) of such turnover as presumptive income under section 44AD.		
Since Mr. Narayan does not have any other income during the previous year 2018-19, business income would be the total income.		
Tax liability		
Upto ₹2,50,000	Nil	
₹2,50,001 to ₹5,00,000 @5%	12,500	
₹5,00,001 to ₹10,00,000 @20%	1,00,000	
Above ₹10,00,001 @30%	18,000	1,30,500
Add: Health and Education cess @ 4%		5,220
Total Tax Payable		1,35,720
Mr. Narayan is required pay ₹ 1,35,720 as minimum amount of advance tax by 15th March 2019.		

Question 9

When and at what rate, a seller is required to collect tax source on sale of motor vehicle. Also, discuss whether tax is required to be collected at source on sale of motor vehicle by manufacturers to dealers. (RTP Nov '18)

Answer 9

As per section 206(1F), every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹ 10 lakhs, shall collect tax from the buyer@1% of the sale consideration.

In case of sale of a motor vehicle, tax shall be collected at the time of receipt of such amount

The CBDT has, vide Circular No. 22/2016 dated 8.6.2016 and Circular No.23/2016 dated 24.6.2016, clarified that tax is required to be collected at source on all transactions of retail sales and accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

Question 10

Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the P.Y. 2017-18:

- (v) **Income of ₹ 8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.**
- (vi) **Income from other sources ₹ 2,70,000.**
- (vii) **Tax deducted at source ₹ 25,000.**
- (viii) **Advance tax paid ₹ 1,03,000 during the P.Y. 2017-18.**

Return of income filed on 11-12-2018. Calculate the interest payable under section 234B of the income-tax Act, 1961. Assume that the return of income

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would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case. (RTP May '18)

Answer 10

Computation of interest payable under section 234B by Mr. Sachal

Particulars	₹
Tax on total income of ₹ 10,80,000 [Business income of ₹ 8,10,000 + Income from other sources of ₹ 2,70,000]	1,36,500
Add: Education cess and SHEC@3% (4% as per amendment)	5,460
Tax on total income	1,41,960
Less: Tax deducted at source	25,000
Assessed Tax	1,16,960
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of ₹ 1,03,000 paid is less than ₹ 1,05,264, being 90% of assessed tax	
Number of months from 1st April, 2018 to 11th December, 2018, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months on ₹ 13,900 [i.e., difference between assessed tax of ₹ 1,16,960 and advance tax of ₹ 1,03,000 paid, being ₹ 13,960 which is rounded off to ₹ 13,900 under Rule 119A of Income-tax Rules, 1962]	1,251

Consequences for delay in filing return of income on or before the due date Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Sachal's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2018-19, in his case, is 30.09.2018. Mr. Sachal has filed his return on 11.12.2018 i.e., interest under section 234A will be payable for 3 months (from 1.10.2018 to 11.12.2018) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., ₹ 13,960 rounded off to ₹ 13,900 under Rule 119A of Income-tax Rules, 1962

Interest u/s 234A = ₹ 13,900 x 1% x 3 = ₹ 417

Fee for late filing of return under section 234F

Since Mr. Sachal has furnished his return of income after the due date but before 31.12.2018 and his total income exceeds ₹ 5 lakhs, a fee of ₹ 5,000 will be payable by him.

All figures have been changed as EC & SHEC is taken at 4 %

Question 11

Examine the following transactions with reference to applicability of the provision of tax collected at source and the rate and amount of the TCS for the A.Y. 2023-24.

- Mr. Kalpit bought an overseas tour programme package for Singapore for himself and his family of ₹ 5 lakhs on 01-11-2022 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller. Assuming Kalpit is not liable to deduct tax at source under any other provisions of the Act.
- Mr. Anuj doing business of textile as a proprietor. His turnover in the business is ₹ 11 crores in the previous year 2021-22. He received payment

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against sale of textile goods from Mr. Ram of ₹ 75 lakhs against the sales made to him in the previous year 2022-23. Mr. Ram's turnover for the P.Y. 2021-22 was ₹ 5 crores. (Assuming all the sales are domestic sales). (MTP 4 Marks March '23, PYP 4 Marks Dec '21)

Answer 11

TCS implications

- (i) Tax @ 5% is required to be collected u/s 206C(1G) by the seller of an overseas tour programme package from Mr. Kalpit, being the buyer of an overseas tour package, even if payment is made by account payee cheque.
Accordingly, tax has to be collected @5% on ₹ 5 lakh.
TCS = 5% x ₹ 5 lakh = ₹ 25,000
- (ii) Mr. Anuj is required to collect tax @0.1% u/s 206C(1H) from Mr. Ram, since his turnover in the P.Y.2021-22 exceeds ₹10 crores, and the sales receipts from Mr. Ram in the P.Y.2022-23 exceeds ₹ 50 lakhs. Tax has to be collected by Mr. Anuj on ₹ 25 lakhs, being the amount exceeding ₹ 50 lakhs, at the time of receipt.
TCS = 0.1% x ₹ 25 lakhs = ₹ 2,500

Question 12

An amount of ₹ 50,000 was paid to Mr. Rakesh on 1.9.2021 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 60,000 was due to Mr. Rakesh on 31.1.2022, from which tax@10% (amounting to ₹ 11,000) on the entire amount of ₹ 1,10,000 was deducted. However, this tax of ₹ 11,000 was deposited only on 22.7.2022. Compute the interest chargeable under section 201(1A). (MTP 3 Marks Oct 22) (Same concept different figures Old & New SM)

Answer 12

Interest under section 201(1A) would be computed as follows –

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 5,000 for 5 months	250
1½% on tax deducted but not deposited i.e. 1½% on ₹ 11,000 for 6 months ²	990
	1,240

² As per TRACES, interest is computed for 7 months

Question 13

Briefly discuss the provisions of tax deducted at source and compute the amount of TDS under the Income-tax Act in respect of the following payments:

- (i) ₹ 51,000 paid to Mr. A, a resident individual as interest income on compensation awarded by Motor Accidents Claims Tribunal by a transport company.
- (ii) Ms. Asha deposited ₹ 35,00,000 @10% p.a. on 1.7.2021 with ABC Co-operative bank limited.
- (iii) Mr. Naresh won ₹ 15,00,000 in Kon Banega Crorepati
Mr. Avinash deposited ₹ 2,00,000 @11% p.a. on 1.5.2021 for half year with Hike Investment LLP.(MTP 8 Marks Sep'22)

Answer 13

- (i) Tax has to be deducted at source by the transport company @10% under section 194A on payment of ₹ 51,000 made to Mr. A, a resident individual, as interest income on compensation awarded by Motor Accidents Claims Tribunal by a transport company, since the interest paid exceeds the specified threshold of ₹ 50,000.
Tax to be deducted = ₹ 51,000 x 10% = ₹ 5,100
- (ii) Tax has to be deducted at source by the ABC Co-operative Bank @10% under section 194A on interest of ₹ 2,62,500 [₹ 35,00,000 x 10% p.a. x 9/12] on deposits made by

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Ms. Asha, since the same exceeds the specified threshold of ₹ 40,000.

Tax to be deducted = ₹ 2,62,500 x 10% = ₹ 26,250

- (iii) Tax has to be deducted @30% under section 194B on payment of ₹ 15,00,000 made to Mr. Naresh for winnings in Kon Banega Crorepati.

Tax to be deducted = ₹ 15,00,000 x 30% = ₹ 4,50,000

- (iv) Tax has to be deducted at source by Hike Investment LLP @10% under section 194A on interest of ₹ 11,000 [₹ 2,00,000 x 11% x 6/12] on deposits made by Mr. Avinash, since the same exceeds the specified threshold of ₹ 5,000.

Tax to be deducted = ₹ 11,000 x 10% = ₹ 1,100

Question 14

Briefly discuss the clarification issued by the CBDT on the cross application of TDS under section 194-Q and TCS under section 206C(1H). (MTP 3 Marks March 22)

Answer 14

As per section 206C(1H), tax is not required to be collected under the said section if the buyer is liable to deduct tax at source under any other provision of the Act on the goods purchased by him from the seller and has deducted such tax.

As per section 194Q, the provision of section 194Q would not apply to a transaction on which tax is collectible under the provisions of section 206C, other than a transactions on which section 206C(1H) applies.

If a transaction is within the purview of both section 194Q and section 206C(1H), the tax is required to be deducted under section 194Q. The transaction would come out of the purview of section 206C(1H) after tax has been deducted by the buyer on that transaction. Once the buyer has deducted the tax on a transaction, the seller is not required to collect the tax under section 206C(1H) on the same transaction. However, if, for any reason, tax has been collected by the seller under section 206C(1H), before the buyer could deduct tax under section 194Q on the same transaction, such transaction would not be subjected to tax deduction again by the buyer.

Question 15

Explain the concept of TCS. Also, list the persons specifically excluded from the definition of buyer, consequent to which tax collection at source under section 206C (1) is not required on sale of timber and other forest produce to such persons. (MTP 6 Marks, March'18)

Answer 15

TCS is tax collection at source. Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer. Moreover, person who grants license or lease (in respect of any parking lot, toll plaza, mine or quarry) is also responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.

Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier.

However, in case of sale of motor vehicle of the value exceeding ₹ 10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

Buyer is a person who obtains in any sale, by way of auction, tender, or any other mode, goods including timber and other forest produce but does not include –

- (A) A public sector company, the Central Government, a State Government, and an embassy, a high commission, legation, commission, consulate and the trade representation, of a foreign State and a club, or
- (B) A buyer in the retail sale of such goods purchased by him for personal consumption.

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Question 16

Examine the applicability of TDS provisions, if any, to be deducted in the following cases:

- (i) Payment of fee for professional services of Rs. 20,000 and royalty of Rs. 27,000 to Ms. Kajal, who is having PAN. (MTP 2 Marks, Aug'18)
- (ii) Payment of Rs. 1,05,000 made to Mr. Ram for purchase of calendars made according to specifications of M/s XYZ Ltd. However, no material was supplied for such calendars to Mr. Ram by M/s XYZ Ltd. (MTP 2 Marks, Aug'18)
- (iii) Rent paid for plant and machinery Rs. 1,70,000 by a partnership firm having sales turnover of Rs. 49,00,000 and net loss of Rs. 15,000. (MTP 1 Mark, Aug'18)

Answer 16

- i. As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for professional services and royalty, individually, exceeds Rs. 30,000 during the financial year. In the given case, since, the individual payments for fee of professional services i.e. Rs. 20,000 and royalty Rs. 27,000 is less than Rs. 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for professional services and royalty were made during the year to Ms. Kajal.
- ii. According to section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer.
- iii. Therefore, there is no liability to deduct tax at source in respect of payment of Rs. 1,05,000 to Mr. Ram, since the contract is a contract for 'sale'.
As per section 194-I, tax is to be deducted @ 2% on payment of rent for plant and machinery, only if the payment exceeds Rs. 1,80,000 during the financial year. Since rent of Rs. 1,70,000 paid by a partnership firm does not exceed Rs. 1,80,000, tax is not deductible

Question 17

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2021-22:

- (1) Payment of ₹ 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2021 for contribution of articles in relation to the sport of cricket.
- (2) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2022.
- (3) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- (4) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2022 by the State of Uttar Pradesh on compulsory acquisition of his urban land. (MTP 4 Marks, March'19, Old SM)

Answer 17

- (1) Section 194E provides that the person responsible for payment 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 Jacques Kallis, a South African cricketer, is a non-resident, health and education cess @ 4% on TDS should also be added. Therefore, tax to be deducted = ₹ 27,000 x 20.80% = ₹ 5,616.
- (2) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual. Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹

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4,20,000.

Tax to be deducted = ₹ 4,20,000 × 1% = ₹ 4,200

- (3) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%. Hence, tax to be deducted = ₹ 1,50,000 × 30% = ₹ 45,000.
- (4) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000. In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.

Question 18

Examine with reasons, whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income-tax Act, 1961 for A.Y. 2019-20:

- (i) **Mr. Nihau makes cash payment to a hotel Ginger, Rishikesh of Rs. 50,000 against the bill raised by the hotel.**
- (ii) **Mr. Suresh, in a single transaction, makes contract of Rs.1,85,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.**
- (iii) **Payment to Mutual Funds of Rs. 57,000 for purchase of its units.**
(MTP 3 Marks, Oct'19)

Answer 18

Requirement of quoting PAN in respect of certain transactions [Rule 114B of Income-tax Rules, 1962]

- (i) **PAN not required to be quoted:** Mr. Nihar is not required to quote his PAN while making payment Rs. 50,000 in cash to a hotel Ginger, Rishikesh, since such payment does not exceed Rs. 50,000.
- (ii) **PAN is mandatorily required to be quoted:** Mr. Suresh is required to quote his PAN while making contract of Rs. 1,85,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, since amount of the transaction exceeds Rs. 1,00,000.
- (iii) **PAN is required to be quoted:** PAN has to be mandatorily quoted while making payment of Rs. 57,000 to Mutual Funds for purchase of its units, since such payment exceeds Rs. 50,000.

Question 19

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. (MTP 7 Marks, May'20)**

Answer 19

- 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,

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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 lakhs 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 ches @4% on TDS should also be added. Therefore, tax to be deducted = Rs. 1,50,0000 x 20.80% = Rs. 31,200.

Question 20

Mr. Karan is engaged in the business of producing and selling toys. During the previous year 2019- 20, his turnover was ₹ 1.75 crores. He opted for paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during the previous year. Is he liable to pay advance tax and if so, what is the minimum amount of advance tax to be paid and the due date for payment of such advance tax assuming that whole of the turnover represents cash receipts? (MTP 3 Marks, Oct'20)

Answer 20

Computation of advance tax liability in the hands of Mr. Karan opting for presumptive taxation scheme under section 44AD

Particulars	₹
As per section 211(1)(b), an eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of an eligible business referred to in section 44AD, shall be required to pay advance tax of the whole amount on or before 15th March of the financial year. Thus, Mr. Karan is required	
to pay advance tax for F.Y.2019-20 on or before 15th March, 2020.	
However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax	

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paid during that financial year on or before 15 th March.		
The advance tax liability is computed as follows -		
Total Income being 8% of ₹1,75,00,000, since Mr. Karan is an eligible assessee opting for presumptive taxation scheme under section 44AD (Total income comprises of only income under the head "Profits and gains of business or profession", since Mr. Karan is not having any other income during the previous year)		14,00,000
Tax liability		
Upton ₹ 2,50,000	Nil	
₹ 2,50,001 to ₹ 5,00,000@5%	12,500	
₹ 5,00,001 to ₹ 10,00,000@20%	1,00,000	
Above ₹ 10,00,000@30%	<u>1,20,000</u>	2,32,500
Add: Health and Education cess @4%		9,300
Total Tax Payable		2,41,800
Accordingly, Mr. Karan is required pay ₹ 2,41,800 as minimum amount of advance tax by 31st March 2020.		

Question 21

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deducted are residents and having a PAN which they have duly furnished to the respective detectors.

- (i) Ms. Sarla received a sum of Rs. 92,000 on 30th September 2020 towards maturity proceeds of LIC taken on 1st October 2014 for which sum assured was Rs. 80,000 and annual premium was Rs. 10,000.
- (ii) Mr. Rohit transferred a residential house property to Mr. Arun for Rs. 45 lacs. The stamp duty value of such property is Rs. 55 lacs.
- (iii) Akash (P) Limited pays the following amounts to Mr. Santosh during previous year 2020-21:
 - (1) Rs. 22,000 towards fee for professional services
 - (2) Rs. 18,000 towards royalty.
- (iv) Payment of Rs. 1,75,000 made to Mr. Ankit for purchase of bag according to specifications of M/s. Packaging Limited. However, no material was supplied for such bag by Packaging Limited or its associates to Mr. Ankit.
- (v) ABC Private Limited pays Rs. 12,000 to Ms. Deepika, its director, on 1.5.2020 towards sitting fee which is not taxable u/s 192.
- (vi) Rashi Limited is engaged by Jigar Limited for the sole purpose of business of operation of call center. On 18-03-2021, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is Rs. 70,000 regarding service charges of call center. The amount is paid through cheque on 28-03-2021 by Jigar Limited.
- (vii) Ms. Mohit won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer. (MTP 7 Marks, April'21, PYP 7 Marks, May '19)

Answer 21

- (i) **On payment of LIC maturity proceeds** - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs. 95,000 would not be exempt u/s 10(10D) in the hands of Ms. Sarla. However, tax deduction provisions u/s 194-DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.
- (ii) **On payment of sale consideration for purchase of residential house property** - Since the sale consideration of house property is less than Rs. 50 lakhs, Mr. Arun is not required to

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deduct tax at source u/s 194-IA, irrespective of the fact that the stamp duty value is more than the sale consideration as well as the threshold limit of Rs. 50 lakhs.

- (iii) **On payment of fee for professional services and royalty** – Under section 194J, the threshold limit of Rs. 30,000 is specified separately for, inter alia, fees for professional services and royalty. Therefore, Akash (P) Limited is not required to deduct tax at source under section 194J either on fee of Rs. 22,000 for professional services or on royalty of Rs. 18,000 paid to Mr. Santosh, since the payment under each category does not exceed the independent threshold Rs. 30,000 specified thereunder.
- (iv) **On payment for purchase of bag according to specifications** - As per section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b).
Therefore, M/s Packaging Limited is not required to deduct tax at source in respect of payment of Rs. 1,75,000 to Mr. Ankit, for purchase of bag according to its specifications, since it did not supply the material for such bag and nor was the material supplied by any of its associates. Hence, the contract is a contract for ‘sale’ and not a works contract.
- (v) **On payment of sitting fees to the director** - ABC Private Limited is required to deduct tax at source @10% on sitting fees of Rs. 12,000 paid to its director, since the threshold limit of Rs. 30,000 u/s 194J is not applicable in respect of fees paid to a
1 In the alternative, an individual can be treated as not ordinarily resident if she is non-resident in any 9 out of 10 preceding assessment years. In this case, Miss Bhanushali is a non-resident in all 10 preceding assessment years. She was in India for only 47 days in A.Y.2020-21 and never visited India earlier
director of a company.
- (vi) **On payment of call center service charges** - Since Rashi Limited is engaged only in the business of operation of call center, Jigar Limited is required deduct tax at source@1.5% on the amount of Rs. 70,000 u/s 194J on 18.3.2021 i.e., at the time of credit of call center service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2021.
- (vii) **On payment of prize winnings of Rs. 21,000**
Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of Rs. 21,000 payables to the customer, since the winnings exceed Rs. 10,000.

Question 22

Ms. Soha (aged 35 years), a resident individual, is a dealer of scooters. During the previous year 2020-21, total turnover of her business was Rs. 110 lakhs (out of which Rs. 25 lakhs were received by way of account payee cheques and balance in cash). Ms. Soha does not opt to pay tax as per the provisions of section 115BAC. What would be your advice to Ms. Soha relating to the provisions of advance tax with its due date along with the amount payable, assuming that she wishes to make maximum tax savings. (MTP 3 Marks, Nov’21) (Same concept different figures RTP Nov’21)

Answer 22

Computation of advance tax of Ms. Soha under Presumptive Income scheme as per section 44AD

The total turnover of Ms. Soha, a dealer of scooter, is ₹ 110 lakhs. Since her total turnover from such business is less than Rs. 200 lakhs and she does not wish to get his books of account audited, she can opt for presumptive tax scheme under section 44AD.

Profits and gains from business computed under section 44AD:

Particulars	Rs.
6% of Rs. 25 lakhs, being turnover effected through	1,50,0

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account payee cheque	00
8% of Rs. 85 lakhs, being cash turnover	<u>6,80,00</u>
	<u>8,30,00</u>

An eligible assessee opting for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year. Computation of tax liability of Ms. Soha as per normal provisions of Income-tax Act, 1961

Particulars	Amount in Rs.	
Total Income	8,30,000	
Tax on 8,30,000		
Upton Rs. 2,50,000	Nil	
₹ 2,50,001 – Rs. 5,00,000@5%	12,500	
₹ 5,00,001 – Rs. 8,30,000@20%	<u>66,000</u>	78,500
Add: Health and Education cess@4%		<u>3,140</u>
Tax liability		<u>81,640</u>

Accordingly, she is required to pay advance tax of Rs. 81,640 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the Act.

Question 23

Mr. Jay is having total income of ₹ 6,90,000 during the P.Y. 2020-21 consisting of Income from business of ₹ 40,000, lottery winnings (gross) ₹ 5,60,000, income by way of salary (computed) ₹ 1,20,000 and loss from house property ₹ 30,000. Compute his tax liability and advance tax obligations for A.Y. 2021-22. (MTP 4 Marks, Oct'21)

Answer 23

Computation of tax liability and advance tax obligations of Mr. Jay for A.Y. 2021-22

Particulars	₹	₹
Income from salary (computed)	1,20,000	
Less: Set-off loss from house property	(30,000)	90,000
Loss from house property	30,000	
Less: Set-off against salary income	(30,000)	-
Income from business		40,000
Lottery winning		5,60,00
		0
Total Income		6,90,00
		0
Tax liability		
Tax @30% on lottery income		1,68,00
		0
Tax on other income of ₹ 1,30,000 (Nil, since it does not exceed the basic exemption limit of ₹ 2,50,000)		-
		1,68,00
		0
Add: Health and education cess@4%		6,720
Total tax liability		1,74,72

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		0
Less: TDS on lottery income under section 194B		1,68,00
		0
Net tax payable		6,720
Since tax payable for the P.Y. 2020-21 is less than ₹ 10,000, Mr. Jay is not liable to pay advance tax.		

Question 24

Compute the amount of TDS on the following payments made:

- Payment of royalty of Rs. 20,000 & fee for technical services of Rs. 24,000 to Mr. A, who is having PAN, were made during the Previous Year 2020-21 by M/s. Zen Ltd.
- Kiara Ltd., paid Rs. 18,000 to one of its directors as sitting fees on 02.02.2021.
- Rs. 2,35,000 paid to Mr. Summit, a resident Individual on 26.12.2021 by State of Tamil Nadu on Compulsory Acquisition of his urban land. (MTP 3 Marks, Nov'21)

Answer 24

(I) Royalty & Fee for technical services

Tax is not required to be deducted at source under section 194J on payment of royalty of Rs. 20,000 and fee for technical services of Rs. 24,000 to Mr. A, since the limit of Rs. 30,000 for non-deduction of tax at source is applicable for royalty and fees for technical services, separately.

(ii) Director's sitting fees

Kiara Ltd. is required deduct tax at source @10% (7.5% for the period between 14.5.2020 to 31.3.2021) under section 194J, on the amount of sitting fees of Rs. 18,000 paid to a director, since the threshold limit of Rs. 30,000 is not applicable in respect of sum paid to a director.

Therefore, tax to be deducted at source = Rs. 18,000 @7.5% (10%) = ~~Rs. 1,350~~ Rs. 1800
(Only during 14th May, 2020 to 31st March 2021 the TDS rate was reduced to 7.5% from 10% for covid- reasons)

(iii) Compensation on compulsory acquisition of urban land

As per section 194LA, no tax is required to be deducted at source on the amount of Rs. 2,35,000 paid to Mr. Sumit by State Government on compulsory acquisition of his urban land, since amount does not exceed Rs. 2,50,000.

Question 25

Determine the advance tax payable by Mr. Deepak with their due dates for the assessment year 2021-22.

	Amount (Rs.)
Total estimated tax payable	5,50,000
TDS (deductible but not deducted)	70,000
TCS (collected)	20,000

(MTP 3 Marks, March'21, RTP Nov '19)

Answer 25

Computation of Advance Tax Payable for the A.Y 2021-22

Particulars	Rs
Tax Payable	5,50,000
Less: TDS (deductible but not deducted), cannot be reduced for computing advance tax liability	Nil

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Less: TCS	20,000
Net Tax Payable	5,30,000

Due dates for payment of advance tax

Due date of installment	Amount payable
On or before 15th June, 2020	Rs. 79,500 [15% of Rs. 5,30,000]
On or before 15th September, 2020	Rs. 1,59,000 [Rs. 2,38,500 (45% of Rs. 5,30,000) less Rs. 79,500, (amount paid in earlier installment)]
On or before 15th December, 2020	Rs. 1,59,000 [Rs. 3,97,500 (75% of Rs. 5,30,000) Less Rs. 2,38,500 (amount paid in earlier installment or installments)]
On or before 15th March, 2021	Rs. 1,32,500, [Rs. 5,30,000 (whole amount of advance tax liability less Rs. 3,97,500 (amount paid in earlier installment or installments)]

Question 26

Mention the significant differences between TDS and TCS. (MTP 3 Marks, Oct'20) (RTP May '18)

Answer 26

Significant Differences between TDS and TCS

	TDS	TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants license or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.
(3)	Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier. However, in case of payment of salary, payment in respect of life insurance policy etc., tax is required to be deducted at the time of payment.	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier. However, in case of sale of motor vehicle of the value exceeding ₹ 10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

Question 27

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Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2018-19:

- (i) **Rs. 2,00,000 paid to Mr. Aarav, a resident individual, on 18-05-2018 by the State of Bihar on compulsory acquisition of his urban land.**
- (ii) **Payment of Rs. 2,00,000 to Mr. Rakesh a transporter who owns 8 goods carriages throughout the previous year. He does not furnish his PAN. (MTP 4 Marks, Oct'19)**

Answer 27

- (i) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source @ 10%, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs. 2,50,000.
In the given case, there is no liability to deduct tax at source as the payment made to Mr. Aarav does not exceed Rs. 2,50,000
- (ii) As per section 194C, no tax is required to be deducted at source on payment to transporter if the following conditions are satisfied:
 - (1) He owns ten or less goods carriages at any time during the previous year.
 - (2) He is engaged in the business of plying, hiring or leasing goods carriages;
 - (3) He furnishes a declaration to this effect along with his PAN.
 In the present case, since Mr. Rakesh has not furnished his PAN, tax is required to be deducted at source @ 20% under section 206AA on Rs. 2,00,000, since the same exceeds the threshold limit of Rs. 1,00,000.
Tax deducted at source = Rs. 40,000 (Rs. 2,00,000 x 20%)

Question 28

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2018-19:

- (i) **On 1.6.2018, Mr. Gyaneshwar made three nine month fixed deposits of ₹ 1 lakh each carrying interest@9% with Laxmi Nagar Branch, Mayur Vihar Branch and Rohini Branch of ABC Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2019.**
- (ii) **Sky TV, a television channel, made payment of ₹ 70 lakhs to a production house ABC Ltd. for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Sky T V. (MTP 4 Marks, April'19)**

Answer 28

- (i) ABC Bank has to deduct tax at source@10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is Rs. 20,250 [$1,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of ₹ 10,000. Since ABC Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of Rs. 20,250 exceeds the threshold limit of Rs. 10,000, tax has to be deducted@10% under section 194A.
Tax to be deducted = Rs. 20,250 x 10% = **Rs. 2,025**

(As per amendment w.e.f 1.4.2019 the threshold limit is Rs. 40,000 if paid by a Bank. In case of Bank opting for CBS, the Limit of Rs. 40,000 will not be per branch but per bank). Hence the revised Answer would be that TDS will not be applicable.

- (ii) In this case, since the programme is produced by the production house ABC Ltd. as per the specifications given by Sky TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹ 70

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lakhs made by Sky TV to the production house ABC Ltd. would be subject to tax deduction at source under section 194C. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 2% if the payment is made to a person other than an individual or HUF.

Therefore, tax to be deducted = Rs.70 lakhs x 2% = **Rs.1,40,000**

Question 29

Examine the applicability of TDS provisions, if any, to be deducted in the following cases:

- (i) **ABC Ltd. paid Rs. 19,000 to one of its Directors as sitting fees on 1-01-2018.**
- (ii) **Payment made by a firm to a sub-contractor, Mr. Y, Rs.3,00,000 with outstanding balance of Rs.1,20,000 shown in the books as on 31-03-2018.**
- (iii) **Fee paid to Dr. Khanna by Mr. A (HUF) Rs. 40,000 for surgery performed on a member of the family. (MTP 6 Marks, Oct'18)**

Answer 29

- (i) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of Rs. 30,000 up to which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.
Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of Rs. 19,000 paid by ABC Ltd. to its director.
- (ii) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a firm to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual
The aggregate amount credited during the year is Rs.4,20,000. Tax is deductible @ 1% on Rs. 4,20,000.
- (iii) 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 it is subject to tax audit under section 44AB in the financial year preceding the current financial year.
However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax at source is not attracted.
Therefore, in the given case, even if Mr. A (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Dr. Khanna is paid for a personal purpose i.e. the surgery of a member of the family.

Question 30

Examine the applicability of tax deduction at source provisions, the rates and amount of tax deduction in the following cases for the A.Y. 2018-19

- (i) **Ramesh gave a building on sub-lease to Mac Ltd. with effect from 1st July, 2017 on a rent of ₹ 15,000 per month. The company also took on the hire machinery from Ramesh with effect from 1st November, 2017 on hire charges of ₹ 10,000 per month. The rent of building and hire charges of machinery for the year ended 2017-18 were credited by the company to the account of Ramesh in its books of account on 31-3-2018.**
- (ii) **₹ 2,45,000 paid to Mr. X on 1-2-2018 by Karnataka State Government on compulsory acquisition of his urban land. (MTP 4 Marks, March'18)**

Answer 30

I. TDS on rent for building and machinery:

Tax is deductible on rent under section 194-I, if the aggregate amount of rental

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income paid or credited to a person exceeds ₹ 1,80,000. Rent includes payment for use of, inter alia, building and machinery. The aggregate payment made by Mac Ltd. to Ramesh towards rent in P.Y. 2017-18 is ₹ 1,85,000 (i.e., ₹ 1,35,000 for building and ₹ 50,000 for machinery). Hence, Mac Ltd. has to deduct tax @10% on rent paid for building and tax @2% on rent paid for machinery. Tax to be deducted = ₹ 14,500 (i.e., ₹ 1,35,000 x 10% = ₹ 13,500 + ₹ 50,000 x 2% = ₹ 1,000)

II. TDS on compensation for compulsory acquisition:

Tax is deductible at source @10% under section 194LA, where payment is made to a resident as compensation or enhanced compensation on compulsory acquisition of any immovable property (other than agricultural land). However, no tax deduction is required if the aggregate payments in a year does not exceed ₹ 2,50,000. Therefore, no tax is required to be deducted at source on payment of ₹ 2,45,000 to Mr. X, since the aggregate payment does not exceed ₹ 2,50,000.

Question 31

Examine TDS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS is required to be deducted

- (i) **Mrinal & Sons, a LLP withdrew from its bank account ₹ 40 lakhs by cash on 1.5.2021, ₹ 35 lakhs on 7.9.2021 and ₹ 55 lakhs on 28.2.2022. The purpose of withdrawal from bank was for buying agricultural produce, from farmers/ agriculturist, being raw material required for manufacture of finished products by it. Mrinal & Sons regularly files its return of income before the due date.**
- (ii) **Mr. Mukesh, aged 75 years, holds 6½ Gold Bonds, 1977 of ₹ 2,50,000 and 7% Gold Bonds of ₹ 3,50,000. He received interest on these bonds on 31.1.2022.**
(MTP 4 Marks March 22)

Answer 31

- (i) Mrinal & Sons has withdrawn aggregate cash of ₹ 1.30 crores during the previous year 2021-22. Since aggregate amount cash withdrawals exceed ₹ 1 crore, bank is required deducted tax at source @2% on the amount exceeding ₹ 1 crore i.e., ₹ 30 lakhs though he withdraws the same for buying agricultural produce from farmers, agriculturists, being raw material required for manufacture of finished products by it.
TDS = 2% of ₹30 lakhs = ₹60,000
- (ii) Tax @10% under section 193 is to be deducted on interest on 6½ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Mukesh i.e.,
₹ 6,00,000 exceed ₹10,000.
Interest on 6½ Gold Bonds, 1977 = ₹ 2,50,000 x 6.5% = ₹ 16,250
Interest on 7% Gold Bonds 1980 = ₹ 3,50,000 x 7% = ₹ 24,500
Tax to be deducted at source = ₹ 40,750 x 10% = ₹ 4,075

Question 32

Briefly discuss the provisions of tax deducted at source under the Income-tax Act in respect of the following payments:

- (i) **Mr. Kamlesh (a resident individual aged 65 years) has maintained two fixed deposits in two different branches of ABC Bank of India (working on core banking solution). During the year 2021-22, the bank paid ₹ 32,000 and ₹ 17,000 as interest on these fixed deposits.**
- (ii) **Mr. Avinash, a pensioner, pays ₹ 55,00,000 during F.Y. 2021-22 to Mr. Raju, for contract payment for reconstruction of his residential house. (MTP 4 Marks April 22)**

Answer 32

- (i) ABC Bank is not required to deduct tax at source under section 194A, since the aggregate interest on fixed deposit with the two branches of the bank ₹ 49,000

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does not exceed the threshold limit of ₹ 50,000, applicable in case of senior citizen. Since ABC Bank has adopted core banking solution (CBS), the aggregate interest paid by both branches has to be considered.

- (ii) TDS provisions under section 194C are not attracted in this case, since Mr. Avinash is a pensioner. However, Mr. Avinash has to deduct tax at source @5% u/s 194M, since the payment to contractor, Mr. Raju, exceeds ₹ 50 lakhs.

Question 33

State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2021-22 under the Income-tax Act, 1961. Assume that all payments are made to residents:

- (i) **Sahil, a resident Indian individual, not deriving any income from business or profession makes payments of ₹ 10 lakh in January, 2022, ₹ 25 lakh in February, 2022 and ₹ 25 lakh in March, 2022 to Madan, a contractor for reconstruction of his residential house.**
- (ii) **XYZ Ltd. makes the payment of ₹ 2,00,000 to Ramesh, an individual transporter who owned 6 goods carriages throughout the previous year. He does not furnish his PAN. (MTP 4 Marks Oct '21)**

Answer 33

TDS implications:

(i) On payments made to contractor

Tax is deductible @5% under section 194M, since payments to Mr. Madan, a contractor, for reconstruction of his residential house exceeds ₹ 50 lakhs in aggregate during the F.Y.2021-22.

Amount of tax to be deducted = 5% of ₹ 60 lakhs = ₹ 3,00,000

(ii) Payment to transporter who has not furnished PAN

Under section 194C, no tax is deductible in respect of payments to a transporter, who owns ten or less goods carriages at any time during the year and furnishes a declaration to that effect along with his PAN to the person paying or crediting such sum.

However, in this case, this exemption from TDS would not be available, since Ramesh has not furnished his PAN to XYZ Ltd. As per section 206AA, due to non-furnishing of PAN, tax would be deductible at a higher rate of 20% and not @1% provided under section 194C.

Amount of tax to be deducted = ₹ 2,00,000 x 20% = ₹ 40,000

Question 34

State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following cases for the financial year 2022-23 under Income-tax Act, 1961. Assume that all payments are made to residents:

- (i) **Mr. Amar has paid ₹ 6,00,000 on 15.10.2022 to M/s Fresh Cold Storage Pvt. Ltd. for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of ₹ 3 crores during the previous year 2022-23.**
- (ii) **Mr. Ramu, a salaried individual, has paid rent of ₹ 60,000 per month to Mr. Shiv Kumar from 1st July, 2022 to 31st March, 2023. Mr. Shiv Kumar has not furnished his Permanent Account Number. (MTP 4 Marks March '23)**

Answer 34

TDS implications

- (i) The arrangement between Mr. Amar, the customer, and M/s. Fresh Cold Storage Pvt. Ltd., the cold storage owner, is basically contractual in nature and main object of the cold storage is to preserve perishable goods by mechanical process and storage of such goods is only incidental. Hence, the provisions of section 194C will be applicable to the amount of ₹ 6 lakh paid by Mr. Amar to the cold storage company.

Accordingly, tax has to be deducted @2% on ₹ 6 lakh.

TDS u/s 194C = 2% x ₹ 6 lakh = ₹ 12,000

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- (ii) Mr. Ramu, being a salaried individual, has to deduct tax at source @ 5% u/s 194-IB on the annual rent paid by him from the last month's rent (rent of March, 2023), since the rent paid by him exceeds ₹ 50,000 p.m.
Since his landlord Mr. Shiv Kumar has not furnished his PAN to Mr. Ramu, tax has to be deducted @ 20% instead of 5%. However, the same cannot exceed ₹ 60,000, being rent for March, 2023.
TDS u/s 194-IB = ₹ 5,40,000 (₹ 60,000 x 9) x 20% = ₹ 1,08,000, but restricted to ₹ 60,000, being rent for March, 2023.

Question 35

Examine the applicability and the amount of TDS to be deducted in the following cases for F.Y. 2022-23:

- (i) **S and Co. Ltd. paid ₹ 25,000 to one of its Directors as sitting fees on 02-02-2023.**
- (ii) **₹ 2,20,000 paid to Mr. Mohan, a resident individual, on 28-02-2023 by the State of Haryana on compulsory acquisition of his urban land.**
- (iii) **Mr. Purushotham, a resident Indian, dealing in hardware goods has a turnover of ₹ 12 crores in the previous year 2021-22. He purchased goods from Mr. Agarwal, a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2022-23 on various dates is ₹ 80 lakhs which are as under:**

10-06-2022	₹ 25,00,000
20-08-2022	₹ 27,00,000
12-10-2022	₹ 28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2023 ₹ 80 lakh. Mr. Agarwal's turnover for the financial year 2021-22 is ₹ 20 crores.

M/s ABC & Sons, a resident HUF is selling bags and wallets manufactured by them through E-commerce platform provided by PQ Ltd. Mr. A buys bag for ₹ 6,00,000 from PQ Ltd. online and directly made the payment to ABC & Sons on 1st October, 2022. (MTP 8 Marks April '23)

Answer 35

TDS implications

- (i) Tax @10% has to be deducted by S and Co. Ltd. under section 194J on directors sitting fees of ₹ 25,000. The threshold limit of ₹ 30,000 is not applicable in respect of sum paid to a director.
The amount of tax to be deducted at source = ₹ 25,000 x 10% = ₹ 2,500
- (ii) There is no liability to deduct tax at source under section 194LA, since the payment to Mr. Mohan, a resident, by State of Haryana on compulsory acquisition of his urban land does not exceed ₹ 2,50,000.
- (iii) Since Mr. Purushotham's turnover for F.Y.2021-22 exceeds ₹ 10 crores, and value of goods purchased from Mr. Agarwal, a resident seller, exceeds ₹ 50 lakhs in the P.Y.2022-23, he is liable to deduct tax@0.1% on ₹ 30 lakhs (being the sum exceeding ₹ 50 lakhs), at the time of credit or payment, whichever is earlier.
On 10.6.22= Nil (No tax is to be deducted u/s 194Q on the purchases made on 10.6.2022 since the purchases made till that date has not exceeded the threshold of ₹ 50 lakhs)
On 20.8.2022 = 0.1% of ₹ 2 lakhs (₹ 27 lakhs - ₹ 25 lakhs, being balance unexhausted limit) = ₹ 200
On 12.10.2022 = 0.1% of ₹ 28 lakhs = ₹ 2,800.
- (iv) The E commerce operator, PQ Ltd. is required to deduct tax at the rate of 1% of the gross sale amount. The sale amount exceeds ₹ 5,00,000, hence section 194-O is applicable to the e-commerce participant i.e., M/s ABC & Sons, HUF, on the

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sales facilitated by PQ Ltd. Therefore, TDS of ₹ 6,000 (1% of 6,00,000) shall be deducted by PQ Ltd. on 1 st October, 2022. Direct payment by Mr. A shall be deemed to be payment made by PQ Ltd. to the HUF.

Question 36

Shurya Bank Ltd., a banking company to which the Banking Regulations Act, 1949 applies, has paid interest of ₹ 7,000 to Mr. Bhuwan, a resident Indian, from its Lucknow branch and ₹ 8,000 from Kanpur branch. If the bank has not adopted core banking solutions, is tax required to be deducted at source from such interest payments made on 31 -3-2018? Examine the provisions of the Income-tax Act, 1961 in this regard.

Will your Answer be different if the bank has adopted core banking solutions?(RTP Nov '18)

Answer 36

Tax is deductible @10% under section 194A in respect of interest credited or paid by a banking company, if the same exceeds ₹ 10,000.

This threshold is with reference to interest credited or paid by a branch of the bank, where the bank has not adopted core banking solutions.

On the other hand, if the bank has adopted core banking solutions, then, the threshold of

₹ 10,000 would apply in respect of the aggregate interest credited or paid by all the branches of the bank.

Therefore, if Shurya Bank Ltd. has not adopted core banking solutions, it need not deduct tax on interest of ₹ 7,000 and ₹ 8,000 paid by its Lucknow Branch and Kanpur Branch, respectively, to Mr. Bhuwan, since the interest paid by each branch does not exceed ₹ 10,000.

However, if Shurya Bank Ltd. has adopted core banking solutions, it has to deduct tax at source@10% on ₹ 15,000 (₹ 7,000 + ₹ 8,000) under section 194A, since the aggregate interest paid by its Lucknow and Kanpur branches exceed ₹ 10,000.

(As per amendment w.e.f 1.4.2019 the threshold limit is Rs. 40,000 if paid by a Bank. In case of Bank opting for CBS, the Limit of Rs. 40,000 will not be per branch but per bank). Hence the revised Answer would be that TDS will not be applicable.

Question 37

Mr. Shikhar, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2017-18.

Estimated tax liability for the financial year 2017-18	₹ 85,000
Tax deducted at source for this year	₹ 15,000

- (i) **Would your Answer change if Mr. Shikhar is eligible for and has opted for presumptive tax provisions under section 44AD and his tax liability is entirely on account of such income (ignore TDS)?**
- (ii) **What would be your Answer if, instead of section 44AD, he is eligible for and has opted for presumptive tax provisions under section 44AE? (RTP Nov '18)**

Answer 37

Determination of Advance Tax Liability of Mr. Shikhar

Particulars		₹
Estimated tax liability for the financial year 2017-18		85,000
Less: Tax deducted at source		15,000
Tax payable		70,000
Due Date of installment	Amount payable	₹

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On or before 15th June, 2017	Not less than 15% of advance tax liability	10,500
On or before 15th September, 2017	Not less than 45% of advance tax liability less amount paid in earlier installment	21,000 (₹ 31,500, being 45% of ₹ 70,000 - ₹ 10,500)
On or before 15th December, 2017	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	21,000 (52,500, being 60% of ₹ 70,000 - ₹ 31,500)
On or before 15th March, 2018	Whole of the advance tax liability less amount paid in earlier installment(s)	17,500 (70,000, being 100% of ₹ 70,000 - ₹ 52,500)

In case he is eligible for presumptive tax provisions under section 44AD and his entire tax liability is on account of such income, he can pay his entire advance tax liability in one installment on or before 15.3.2018, without attracting interest under section 243C. This benefit would, however, not be available if he is eligible for and has opted for presumptive tax provisions under section 44AE, in which case he has to pay his advance tax in four installments as indicated above, failing which interest under section 234C would be attracted.

Question 38

Mr. Chandra Prakash, a resident individual aged 54, is planning to pay self-assessment tax and furnish his return of income on 15.12.2019. He furnishes the following details of his income, the amount of tax deducted at source and advance tax paid for the previous year 2018-19 as under:

- (i) **Retail Toy business, whose turnover is ₹ 185 lakhs [received ₹ 90 lakhs by Account payee cheque, ₹ 50 lakhs through ECS and balance in cash]. He opts for presumptive taxation scheme under section 44AD.**
- (ii) **Income from other sources ₹ 3,05,000.**
- (iii) **Tax deducted at source ₹ 55,000.**
- (iv) **Advance tax paid ₹ 1,45,000 on 14-3-2019.**
- (v) **Calculate the interest payable under section 234B of the income-tax Act, 1961. (RTP May '20)**

Answer 38

Computation of interest payable under section 234B by Mr. Chandra Prakash

Particulars	₹
Tax on total income of ₹ 15,05,000 [Business income of ₹ 12,00,000 (See Note below) + Income from other sources of ₹ 3,05,000]	2,64,000
Add: Health and Education cess @4%	10,560
Tax on total income	2,74,560
Less: Tax deducted at source	55,000
Assessed Tax	2,19,560
90% of assessed tax	1,97,604
Advance tax paid on 14-3-2019	1,45,000
Interest under section 234B is leviable since advance tax of ₹1,45,000 paid is less than ₹1,97,604, being 90% of assessed tax	
Number of months from 1st April, 2019 to 15th December, 2019, being the date of payment of self-assessment tax	

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Interest under section 234B@1% per month or part of a month for 9 months on ₹ 74,500 [i.e., difference between assessed tax of ₹ 2,19,560 and advance tax of ₹1,45,000 paid being ₹ 74,560 which is rounded off to ₹ 74,5004]	6,705
Interest under section 234B rounded off	
	6,710
Note: The presumptive income computed under section 44AD would be ₹ 12 lakhs, being 8% of ₹ 45 lakhs and 6% of ₹ 140 lakhs.	

4 Rounded off under Rule 119A of Income-tax Rules, 1962

Question 39

State Government of Madhya Pradesh grants a lease of coal mine to ABC Co. Ltd., an Indian company, on 1.10.2021 and charged ₹ 8 crores for the lease. ABC Co. Ltd. sold coal for ₹ 2 crores to Mahapower Ltd., another Indian company, during the previous year 2021-22. Mahapower Ltd. furnishes a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power. The turnover of ABC Co. Ltd. and Mahapower Ltd. for the F.Y. 2020-21 amounted to ₹ 11 crores and ₹ 12 crores, respectively. What is the amount of tax required to be deducted or collected at source in respect of the above transactions, if any? (RTP Nov'22)

Answer 39

Section 206C(1C) provides for collection of tax @2% by every person who grants a lease in any mine or a quarry to another person for the use of such mine or quarry for the purposes of business. Accordingly, State Government of Madhya Pradesh is required to collect tax at source of ₹ 16,00,000, being 2% on ₹ 8 crores, being the charges for lease of coal mine.

Under section 206C (1), seller of certain goods, inter alia, coal is required to collect tax from the buyers @1%. However, no collection would be made under section 206C(1), in case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration to the effect that goods are to be utilized for the purpose of generation of power.

In the present case, ABC Co. Ltd. is not required to collect tax at source u/s 206C(1) in respect of coal sold to Mahapower Ltd. since Mahapower Ltd. has furnished a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power.

As per section 206C(1H), tax is to be collected in respect of sale of goods other than the goods which have been covered under section 206C(1). In case of goods which are covered under section 206C(1) but exempted under section 206C(1A), tax will not be collectible under either section 206C(1) or section 206C(1H).

Section 194Q requires any person, being a buyer who is responsible for paying any sum to resident for purchase of any goods of the value exceeding ₹ 50 lakhs in any previous year, to deduct tax @0.1% of such sum exceeding ₹ 50 lakhs. The provisions of section 194Q do not apply in respect to those transactions where tax is collectible under section 206C [except under section 206C(1H)]. Buyer means a person whose turnover from the business carried on by him exceeds ₹ 10 crores during the financial year preceding the financial year in which goods are purchased.

In this case, since Mahapower Ltd.'s turnover for P.Y. 2020 -21 exceeds ₹ 10 crores, it is a buyer as per section 194Q. Since, tax is not required to be collected on sale of coal to Mahapower Ltd., the provisions of section 194Q would apply and Mahapower Ltd. is required to deduct tax of ₹ 15,000 under section 194Q, being 0.1% of ₹ 1.5 crores, being the sum exceeding ₹ 50 lakhs.

Question 40

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Examine TDS/TCS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS/TCS is required to be deducted/collected.

- (i) On 1.5.2019, Mr. Brines made three fixed deposits of nine months each of ₹ 3 lakh each, carrying interest @ 9% with Mumbai Branch, Delhi Branch and Chandigarh Branch of CBZ Bank, a bank which had adopted CBS. These Fixed Deposits mature on 31.01.2020.
- (ii) Mr. Marwah, aged 80 years, holds 6½% Gold Bonds, 1977 of ₹ 2,00,000 and 7% Gold Bonds 1980 of ₹ 3,00,000. He received yearly interest on these bonds on 28.02.2020.
- (iii) M/s AG Pvt. Ltd. took a loan of ₹ 50,00,000 from Mr. Haridas. It credited interest of ₹ 79,000 payable to Mr. Haridas during the previous year 2019-20. M/s AG Pvt. Ltd. is not liable for tax audit during previous years 2018-19 and 2019-20.
- (iv) Mr. Prabhakar is due to receive ₹ 6 lakh on 31.3.2020 towards maturity proceeds of LIC policy taken on 1.4.2016, for which the sum assured is ₹ 5 lakhs and the annual premium is ₹ 1,40,000. (PYP 8 Marks, Jan'21)

Answer 40

- (i) CBZ Bank has to deduct tax at source @10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [$3,00,000 \times 9\% \times 3 \times 9/12$], which exceeds the threshold limit of ₹ 40,000. Since CBZ Bank has adopted core banking solution (CBS), the aggregate interest credited/paid by all branches has to be considered. Tax to be deducted at source = ₹ 60,750 x 10% = ₹ 6,075¹
- (ii) Tax @10% under section 193 is to be deducted on interest on 6½ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Marwah i.e., ₹ 5,00,000 exceed ₹ 10,000. Interest on 6½ Gold Bonds, 1977 = ₹ 2,00,000 x 6.5% = ₹ 13,000 Interest on 7% Gold Bonds 1980 = ₹ 3,00,000 x 7% = ₹ 21,000 Tax to be deducted at source = ₹ 34,000 x 10% = ₹ 3,400
- (iii) M/s AG Pvt. Ltd. has to deduct tax at source @10% under section 194A, since the interest on loan payable is ₹ 79,000 which exceeds the threshold limit of ₹ 5,000. M/s AG Pvt. Ltd., being a company, has to deduct tax at source irrespective of the fact that it is not liable to tax audit during P.Y. 2018-19 and 2019-20. Tax to be deducted at source = ₹ 79,000 x 10% = ₹ 7,900
- (iv) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 6 lakhs due on 31.3.2020 are not exempt under section 10(10D) in the hands of Mr. Prabhakar. Therefore, tax is required to be deducted @5% under section 194DA on the amount of income comprised therein i.e., on ₹ 40,000 [₹ 6,00,000, being maturity proceeds - ₹ 5,60,000, being the amount of insurance premium paid. Tax to be deducted at source = ₹ 40,000 x 5% = ₹ 2,000

¹ Alternatively, in the absence of information about p.a., the amount of interest can also be worked out as ₹ 81,000 [$3,00,000 \times 9\% \times 3$] and the tax to be deducted thereon would be ₹ 81,000 x 10% = ₹ 8,100.

Question 41

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deducted are residents and having a PAN which they have duly furnished to the respective detectors.

- (i) Mr. Tendon received a sum of ₹ 1,75,000 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- (ii) A sum of ₹ 42,000 has been credited as interest on recurring deposit by a

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- banking company to the account of Mr. Hasan (aged 63 years).
- (iii) Ms. Kabul won a lucky draw prize of ` 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.
 - (iv) Finance Bank Ltd. sanctioned and disbursed a loan of ` 10 crores to Borrower Ltd. on 31-3-2019. Borrower Ltd. paid a sum of ` 1,00,000 as service fee to Finance Bank Ltd. for processing the loan application.
 - (v) Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2018 to February, 2019) at Hyderabad where he pays a monthly house rent of ` 52,000 for those three months, totaling to ` 1,56,000. Rent is paid by him on the first day of the relevant month. (PYP 7 Marks, Nov 19)

Answer 41

TDS implications

- (i) On pre-mature withdrawal from EPF
No tax is deductible under section 192A even though the employee, Mr. Tandon, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.
- (ii) On credit of interest on recurring deposit by a banking company
Since the interest on recurring deposit credited to the account of Mr. Hasan, a senior citizen, does not exceed ` 50,000 in the P.Y.2018-19, no tax is deductible at source under section 194A.
- (iii) On payment of prize winnings of ` 21,000
Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of ` 21,000 payable to the customer, since the winnings exceed ` 10,000.
- (iv) On payment of service fee to bank
Even though service fee is included in the definition of "interest" as defined under section 2(28A), no tax is deductible at source under section 194A, since the service fee are paid to a banking company, i.e., Finance Bank Ltd.
- (v) On payment of rent exceeding ` 50,000 by a salaried individual
Mr. Ashok, a salaried individual, is liable to deduct tax at source @5% under section 194-IB on ` 1,56,000 (being rent for 3 months from December 2018 to February 2019) from the rent of ` 52,000 payable on 1st February, 2019, since the monthly rent exceeds ` 50,000.

Question 42

Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for ` 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than ` 12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations. (PYP 2 Marks, Nov'18)

Answer 42

Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ` 10 lakhs, is required to collect tax at source @1% of the sale consideration from the buyer. TCS provisions will, however, not apply on sale of motor vehicles by manufacturers to dealers/distributors. Hence, XYZ Ltd., the manufacturer-seller need not collect tax at source on sale of cars to the dealer, Rahil & Co., even if the value of each car exceeds ` 10 lakhs. However, TCS provisions would be attracted when Rahil & Co., sells cars to individual buyers, since the value of each car exceeds ` 10 lakhs. Rahil & Co. has to collect tax@1% of the consideration on sale of each car to an individual buyer.

(As per amendment From AY 2022-23 Section 194Q applies to any buyer who is responsible for paying any sum to any resident seller for purchase of any

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goods of the value or aggregate of value exceeding ₹ 50 lakhs in any previous year. The buyer, at the time of credit of such sum to the account of the seller or at the time of payment, whichever is earlier, is required to deduct an amount equal to 0.1% of such sum exceeding ₹ 50 lakhs as income tax.

Hence this section would become applicable to Rahil & Co if T/O was more than 10 crores and if the AY was 22-23.)

Question 43

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2022-23.

- (i) XY a partnership firm is selling its product 'R' through the E-commerce Platform provided by AB Ltd. (E-commerce Operator). AB Ltd., credited in its books of account, the account of XY on 28th February, 2022 by sum of ₹ 4,90,000 for the sale of product R, made during the month February, 2022. Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of ₹ 60,000 directly to XY on 21st February, 2022.
- (ii) ABC Ltd is a producer of natural gas. During the year it sold natural gas worth ₹ 26,50,000 to M/s Deep Co., a partnership firm. It also incurred ₹ 1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges. ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2021-22 as under

BILL NO.	DATE	AMOUNT ₹
1	30-04-2021	27,000
57	30-06-2021	25,000
105	30-09-2021	28,000
151	30-12-2021	32,000

(PYP 6 Marks, May'22, MTP 6 Marks Oct '23)

Answer 43

- (i) AB Ltd, an e-commerce operator is required to deduct tax @1% under section 194-O on ₹ 5,50,000 (i.e., ₹ 4,90,000 credited on 28.2.2022 plus deemed payment of ₹ 60,000 on 21.2.2022, being payment directly made by Mr. Rai to the e-commerce participant XY), being the gross amount of sale of product 'R' of XY, an e-commerce participant, since such sale is effected in February, 2022 is facilitated by AB Ltd. through its e-commerce platform.
Hence, TDS u/s 194O = 1% on ₹ 5,50,000 = ₹ 5,500
- (ii) Since ABC Ltd., being the producer of the natural gas, sells as well as transports the gas to M/s. Deep Co., the purchaser, till the point of delivery, where the ownership of gas is simultaneously transferred to M/s. Deep Co, the manner of raising the invoice (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C. Therefore, in such circumstances, the TDS provisions would not be attracted on ₹1,70,000, being the component of gas transportation charges paid by M/s. Deep Co. to ABC Ltd.

Alternate Answer:

The above solution is based on Circular No. 9/2012 dated 17.10.2012, wherein it has been clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill, does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C of the Act.

Since, the Question is silent on the timing of the transfer of ownership of the gas to the purchaser, an assumption that the ownership of the gas to the purchaser is

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transferred before its transportation is possible. In such a case, the transportation of gas after transfer of ownership may be considered as a separate contract for transportation of gas i.e. 'works contract' u/s 194C, and hence TDS @ 2% has to be deducted by M/s. Deep Co. on ₹ 1,70,000/- i.e. ₹ 3,400/-.

- (iii) In this case, the individual contract payments (through the bills dated 30.4.2021, 30.6.2021 and 30.9.2021) made by ABC LLP to XYZ does not exceed ₹ 30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2021-22 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 32,000, due on 30.12.2021, taking the total from ₹ 80,000 to ₹ 1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of ₹ 1,12,000. Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of ₹ 1,12,000, from the last payment of ₹ 32,000 on 30.12.2021.

Hence, TDS u/s 194C = ₹ 2,240.

Question 44

Ms. Priya, aged 61 years, has total income of ₹ 7,50,000, including income from profession, for A.Y. 2022-23, and has paid advance tax of ₹ 10,000 on 13.12.2021. She has filed her return of income on 15.06.2022.

Calculate the self-assessment tax payable and the interest thereon u/s 234A, 234B and 234C, if any, by Ms. Priya. (PYP 4 Marks Nov '22)

Answer 44

Self assessment tax payable [It is assumed Ms. Priya is not opting for section 115BAC] [See Note and Alternative thereto]				
Tax on ₹ 7,50,000				Rs.
Upto ₹ 3,00,000				Nil
₹ 3,00,001 – ₹ 5,00,000 @5%				10,000
₹ 5,00,001 – ₹ 7,50,000 @20%				50,000
				60,000
Add: Health and education cess @4%				2,400
				62,400
Less: Advance tax				10,000
Tax payable				52,400
Add: Interest under section 234A [Interest under section 234A would not be attracted, since Ms. Priya has furnished her return of income on 15.06.2022 which is before the due date of filing return of income]				-
Add: Interest under section 234B would be levied on ₹ 52,400 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to ₹ 1,572				1,572
Add: Interest under section 234C				2,747
Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest ₹ 100, ignoring fraction)	Period	Interest @ 1%
15th June 2021	15%	9,300 [15% of ₹ 62,400]	3 months	279
15th September 2021	45%	28,000 [45% of ₹ 62,400]	3 months	840

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15th December 2021	75%	36,800 [(75% of ₹ 62,400) – ₹ 10,000]	3 months	1104	
15th March 2022	100%	52,400	1 month	524	
Total interest under section 234C				2,747	
Self assessment tax payable and interest thereon					56,719
Self assessment tax payable and interest thereon (rounded off)					56,720

Note - The question does not mention that Ms. Priya has opted for section 115BAC, in which case the total income given therein would be as per the regular provisions of the Act. The main solution has been worked out accordingly as per the regular provisions of the Act.

Since there is no mention of Chapter VI-A or other deductions claimed by her, it is possible to assume that she has not claimed any such deduction, in which case, it would be beneficial for her to opt for section 115BAC. Based on the assumption that she has opted for section 115BAC and the total income given in the question reflects the computation accordingly, the alternative answer would be as follows:

Self assessment tax payable [It is assumed Ms. Priya is not opting for section 115BAC] [See Note and Alternative thereto]					
Tax on ₹ 7,50,000					Rs.
Upto ₹ 2,50,000 [not eligible for higher basic exemption limit]					Nil
₹ 2,50,001 – ₹ 5,00,000 @5%					12,500
₹ 5,00,001 – ₹ 7,50,000 @10%					25,000
					37,500
Add: Health and education cess @4%					1,500
					39,000
Less: Advance tax					10,000
Tax payable					29,000
Add: Interest under section 234A [Interest under section 234A would not be attracted, since Ms. Priya has furnished her return of income on 15.06.2022 which is before the due date of filing return of income]					-
Add: Interest under section 234B would be levied on ₹ 52,400 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to ₹ 1,572					870
Add: Interest under section 234C					1,565
Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest ₹ 100, ignoring fraction)	Period	Interest @ 1%	
15th June 2021	15%	5,800 [15% of ₹ 39,000]	3 months	174	
15th September	45%	17,500 [45% of ₹ 39,000]	3 months	525	

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2021			s		
15th December 2021	75%	19,200[(75% of ₹ 39,000) – ₹10,000]	3 months	576	
15th March 2022	100%	29,000	1 month	290	
Total interest under section 234C				1,565	
Self assessment tax payable and interest thereon					31,435
Self assessment tax payable and interest thereon (rounded off)					31,440

Question 45

(a) **Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.**

- (iv) **Mr. Kunal received a sum of ₹ 10,20,000 on 28.02.2021 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.**
- (v) **Indian Bank sanctioned and disbursed a loan of ₹ 12 crores to B Ltd. on 31-12-2020. B Ltd. paid a sum of ₹ 1,20,000 as service fee to Indian Bank for processing the loan application.**
- (vi) **Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2020 to February, 2021) at Mumbai where he pays a monthly house rent of ₹ 32,000 for those five months, totalling to ₹ 1,60,000. Rent is paid by him on the first day of the relevant month.**

(b) **Mr. Subhash engaged in the business of trading of electrical appliances. His turnover for F.Y. 2019-20 and F.Y. 2020-21 was ₹ 12 crore and 9.5 crore, respectively. During the previous year, XYZ Ltd. placed order for purchase of electric appliances for ₹ 55 lakhs on 01.08.2020. He again placed order for ₹ 35 lakhs on 01.11.2020. Mr. Subhash delivered both the orders within 15 days of receipt of orders. Discuss, whether Mr. Subhash is required to collect tax at source, on the consideration received from XYZ Ltd.**

(RTP May '21)

Answer 45

(c) TDS implications

(iv) On pre-mature withdrawal from EPF

No tax is deductible under section 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(v) On payment of service fee to bank

Even though service fee is included in the definition of "interest" under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

(vi) On payment of rent by a salaried individual

Mr. Agam, a salaried individual, is not liable to deduct tax at source @5% under section 194-IB on ₹ 1,60,000 (being rent for 5 months from October 2020 to February 2021) from the rent of ₹ 32,000 payable on 1st day of every month, since the monthly rent does not exceed ₹ 50,000.

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(d) As per section 206(1H), tax is required to be collected at source @0.1% (@0.075%, if payment is received during the period between 14.5.2020 to 31.3.2021) on the sale consideration exceeding ₹ 50 lakhs at the time of receipt of consideration. Tax is required to be collected at source by a seller, being a person whose total turnover from the business exceeds ₹ 10 crore during the financial year immediately preceding the financial year in which sale of goods is carried out. Since, section 206C(1H) is applicable w.e.f. 1st October, 2020, tax is not required to be collected at source on any sale consideration received before 1st October, 2020, even though such amount exceeds the threshold limit of ₹ 50 lakhs. Section 206C(1H), would apply on sale consideration (including advance received for sale) received on or after 1st October, 2020.

Since the threshold of ₹ 50 lakhs is with respect to the previous year, calculation of receipt of sale consideration for triggering TCS under section 206C(1H) shall be computed from 1st April, 2020. Hence, in the present case, since Mr. Subhash has sold electric appliance for sale consideration or in aggregate of such consideration, exceeding ₹ 50 lakhs, TCS is required to be collected at source @0.075%, on amount of ₹ 35 lakhs, being the amount of consideration received after 01.10.2020.

Question 46

State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2021-22 under the Income-tax Act, 1961. Assume that all payments are made to residents:

- (i) **Sahil, a resident Indian individual, not deriving any income from business or profession makes payments of ₹ 10 lakh in January, 2022, ₹ 25 lakh in February, 2022 and ₹ 25 lakh in March, 2022 to Madan, a contractor for reconstruction of his residential house.**
- (ii) **XYZ Ltd. makes the payment of ₹ 2,00,000 to Ramesh, an individual transporter who owned 6 goods carriages throughout the previous year. He does not furnish his PAN. (PYP 5 Marks, Nov '20)**

Answer 46

TDS implications:

(i) On payments made to contractor

Tax is deductible @5% under section 194M, since payments to Mr. Madan, a contractor, for reconstruction of his residential house exceeds ₹ 50 lakhs in aggregate during the F.Y. 2021-22.

Amount of tax to be deducted = 5% of ₹ 60 lakhs = ₹ 3,00,000

(ii) Payment to transporter who has not furnished PAN

Under section 194C, no tax is deductible in respect of payments to a transporter, who owns ten or less goods carriages at any time during the year and furnishes a declaration to that effect along with his PAN to the person paying or crediting such sum.

However, in this case, this exemption from TDS would not be available, since Ramesh has not furnished his PAN to XYZ Ltd. As per section 206AA, due to non-furnishing of PAN, tax would be deductible at a higher rate of 20% and not @1% provided under section 194C.

Amount of tax to be deducted = ₹ 2,00,000 x 20% = ₹ 40,000

Question 47

State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following cases for the financial year 2022-23 under Income-tax Act, 1961. Assume that all payments are made to residents:

- (i) **Mr. Amar has paid ₹ 6,00,000 on 15.10.2022 to M/s Fresh Cold Storage Pvt. Ltd. for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of ₹ 3 crores during the previous year 2022-23.**

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- (ii) **Mr. Ramu, a salaried individual, has paid rent of ₹ 60,000 per month to Mr. Shiv Kumar from 1st July, 2022 to 31st March, 2023. Mr. Shiv Kumar has not furnished his Permanent Account Number. (PYP 4 Marks Dec '21)**

Answer 47

TDS implications

- (i) The arrangement between Mr. Amar, the customer, and M/s. Fresh Cold Storage Pvt. Ltd., the cold storage owner, is basically contractual in nature and main object of the cold storage is to preserve perishable goods by mechanical process and storage of such goods is only incidental. Hence, the provisions of section 194C will be applicable to the amount of ₹ 6 lakh paid by Mr. Amar to the cold storage company.

Accordingly, tax has to be deducted @ 2% on ₹ 6 lakh.

TDS u/s 194C = 2% x ₹ 6 lakh = ₹ 12,000

- (ii) Mr. Ramu, being a salaried individual, has to deduct tax at source @ 5% u/s 194-IB on the annual rent paid by him from the last month's rent (rent of March, 2023), since the rent paid by him exceeds ₹ 50,000 p.m.

Since his landlord Mr. Shiv Kumar has not furnished his PAN to Mr. Ramu, tax has to be deducted @ 20% instead of 5%. However, the same cannot exceed ₹ 60,000, being rent for March, 2023.

TDS u/s 194-IB = ₹ 5,40,000 (₹ 60,000 x 9) x 20% = ₹ 1,08,000, but restricted to ₹ 60,000, being rent for March, 2023.

Question 48

Examine the applicability and the amount of TDS to be deducted in the following cases for F.Y. 2022-23:

- (i) **S and Co. Ltd. paid ₹ 25,000 to one of its Directors as sitting fees on 02-02-2023.**
- (ii) **₹ 2,20,000 paid to Mr. Mohan, a resident individual, on 28-02-2023 by the State of Haryana on compulsory acquisition of his urban land.**
- (iii) **Mr. Purushotham, a resident Indian, dealing in hardware goods has a turnover of ₹ 12 crores in the previous year 2021-22. He purchased goods from Mr. Agarwal, a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2022-23 on various dates is ₹ 80 lakhs which are as under:**

10-06-2022	₹ 25,00,000
20-08-2022	₹ 27,00,000
12-10-2022	₹ 28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2023 ₹ 80 lakh. Mr. Agarwal's turnover for the financial year 2021-22 is ₹ 20 crores.

M/s ABC & Sons, a resident HUF is selling bags and wallets manufactured by them through E-commerce platform provided by PQ Ltd. Mr. A buys bag for ₹ 6,00,000 from PQ Ltd. online and directly made the payment to ABC & Sons on 1st October, 2022. (PYP 6 Marks Nov'22)

Answer 48

TDS implications

- (i) Tax @ 10% has to be deducted by S and Co. Ltd. under section 194J on directors sitting fees of ₹ 25,000. The threshold limit of ₹ 30,000 is not applicable in respect of sum paid to a director.

The amount of tax to be deducted at source = ₹ 25,000 x 10% = ₹ 2,500

- (ii) There is no liability to deduct tax at source under section 194LA, since the payment to Mr. Mohan, a resident, by State of Haryana on

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- compulsory acquisition of his urban land does not exceed ₹ 2,50,000.
- (iii) Since Mr. Purushotham's turnover for F.Y.2021-22 exceeds ₹ 10 crores, and value of goods purchased from Mr. Agarwal, a resident seller, exceeds ₹ 50 lakhs in the P.Y.2022-23, he is liable to deduct tax@0.1% on ₹ 30 lakhs (being the sum exceeding ₹ 50 lakhs), at the time of credit or payment, whichever is earlier.

On 10.6.22= Nil (No tax is to be deducted u/s 194Q on the purchases made on 10.6.2022 since the purchases made till that date has not exceeded the threshold of ₹ 50 lakhs)

On 20.8.2022 = 0.1% of ₹ 2 lakhs (₹ 27 lakhs - ₹ 25 lakhs, being balance unexhausted limit) = ₹ 200

On 12.10.2022 = 0.1% of ₹ 28 lakhs = ₹ 2,800.

- (iv) The E commerce operator, PQ Ltd. is required to deduct tax at the rate of 1% of the gross sale amount. The sale amount exceeds ₹ 5,00,000, hence section 194-O is applicable to the e-commerce participant i.e., M/s ABC & Sons, HUF, on the sales facilitated by PQ Ltd. Therefore, TDS of ₹ 6,000 (1% of 6,00,000) shall be deducted by PQ Ltd. on 1 st October, 2022. Direct payment by Mr. A shall be deemed to be payment made by PQ Ltd. to the HUF.

Section - B

Question 1

Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year

Particulars	₹
2022-23	1,05,00,000
2023-24	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2021-22:

Particulars	₹
Interest paid to UCO Bank on 15.8.2023	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2023	24,000
Shop rent paid (one payee) on 21.1.2024	2,50,000
Commission paid to Balu on 15.3.2024	7,000

Answer 1

As the turnover of business carried on by Ashwin for F.Y. 2022-23, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2023-24, subject to, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

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Shop Rent paid to one payee – Tax has to be deducted @10% under section 194-I as the annual rental payment exceeds ₹ 2,40,000.

Commission paid to Balu – No, tax has to be deducted under section 194H in this case as the commission does not exceed ₹ 15,000.

Question 2

Compute the amount of tax deduction at source on the following payments made by M/s. S Ltd. during the financial year 2023-24 as per the provisions of the Income-tax Act, 1961.

Sr. No.	Date	Nature of Payment
(i)	1-10-2023	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect along with his PAN.
(ii)	1-11-2023	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2023	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2024	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2024	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2024	Payment of commission of ₹ 14,000 to Mr. Y.

Answer 2

- (i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
- (1) He owns ten or less goods carriages at any time during the previous year.
 - (2) He is engaged in the business of plying, hiring or leasing goods carriages;
 - (3) He has furnished a declaration to this effect along with his PAN.
- (ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- (iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2021 to M/s. X Ltd. is less than the threshold limit of ₹ 30,000.
- (iv) According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer. Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for ‘sale’.
- (v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for

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deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹2,50,000. In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹2,50,000.

- (vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹15,000. Since the commission payment made to Mr. Y does not exceed ₹15,000, the provisions of section 194H are not attracted.

Question 3

Examine the applicability of TDS provisions and TDS amount in the following cases:

- (a) Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹2,60,000 on 27.9.2023.
 (b) Fee paid on 1.12.2023 to Dr. Srivatsan by Sundar (HUF) ₹35,000 for surgery performed on a member of the family.
 (c) ABC and Co. Ltd. paid ₹19,000 to one of its directors as sitting fees on 01-01-2023.

Answer 3

- (a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds ₹2,40,000, the provisions of section 194-I for deduction of tax at source are attracted. The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd. Therefore, the amount of tax to be deducted at source:
 $= ₹2,60,000 \times 2\% = ₹5,200.$
Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹2,60,000, by virtue of provisions of section 206AA.
- (b) 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 ₹1 crore in case of business or ₹50 lakhs in case of profession, 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 ₹50 lakhs during the financial year. In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2021 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded ₹50 lakhs in the P.Y.2021-22. However, since the payment does not exceed ₹50 lakh in this case, there is no liability to deduct tax at source under section 194M also.
- (c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹30,000 up to which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director. Therefore, tax @10% has to be deducted at source under section 194J in respect of the sum of ₹19,000 paid by ABC Ltd.

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to its director. Therefore, the amount of tax to be deducted at source:
 $= ₹ 19,000 \times 10\% = ₹ 1,900$

Question 4

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the F.Y. 2023-24:

- 1. Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31.3.2024.**
- 2. Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.**
- 3. ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land.**

Answer 4

- Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual.
 Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.
 Tax to be deducted = ₹ 4,20,000 x 1% = ₹ 4,200
- Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.
 Hence, tax to be deducted = ₹ 1,50,000 x 30% = ₹ 45,000.
- As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.
 In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.

Question 5

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

Answer 5

The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

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

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @ 30% under section 194B and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess @ 4% in respect thereof, along with tax liability in respect of other income, if any, is ₹ 10,000 or more.

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Question 6: illustration (New SM)

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Answer 6

Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	1,20,000
	8,50,000
Less: Standard deduction under section 16(ia)	50,000
	8,00,000

Tax Liability ₹ 75,400

Average rate of tax ($\frac{75,400}{8,00,000} \times 100$) 9.425%

Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under – Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310 Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

- (i) In cases where an assessee is employed simultaneously under more than one employer or the assessee takes up a job with another employer during the financial year after his resignation or retirement from the services of the former employer, he may furnish the details of the income under the head "Salaries" due or received by him from the other employer, the tax deducted therefrom and such other particulars to his current employer. Thereupon, the subsequent employer should take such information into consideration and then deduct the tax remaining payable in respect of the employee's remuneration from both the employers put together for the relevant financial year.
- (ii) In respect of salary payments to employees of Government or to employees of companies, co-operative societies, local authorities, universities, institutions, associations or bodies, deduction of tax at source should be made after allowing relief u/s 89(1), where eligible.
- (iii) A tax payer having salary income in addition to other income chargeable to tax for that financial year, may send to the employer, the following particulars of:
 - (a) such other income and of any tax deducted under any other provision;
 - (b) loss, if any, under the head 'Income from house property' if the assessee intimated to the employer his intent to exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).
The employer shall take the above particulars into account while calculating tax deductible at source.
- (iv) It is also provided that except in cases where loss from house property has been adjusted against salary income, the tax deductible from salary should not be reduced as a consequence of making the above adjustments. Loss from house property would be adjusted against salary where the assessee intimated to the

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employer his intent to exercise the option of shifting out of the default tax regime provided under section 115BAC(1A). However, loss under the head "income from house property" shall be allowed to be set off against salary and income under any other head subject to maximum of ₹ 2,00,000.

Question 7: illustration

Examine the TDS implications under section 194A in the cases mentioned hereunder-

- (i) **On 1.10.2021, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh@9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2024.**
- (ii) **On 1.6.2023, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2024.**
- (iii) **On 1.10.2023, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2024.**

Answer 7

- (i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of ₹ 45,000 ($9\% \times ₹ 10 \text{ lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹ 4,500.
- (ii) XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [$3,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 40,000, tax has to be deducted@10% u/s 194A.
- (iii) No tax has to be deducted under section 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2024 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 40,000.

Question 8: illustration

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2021-22-

₹ 20,000 on 1.5.2023

₹ 25,000 on 1.8.2023

₹ 28,000 on 1.12.2023

On 1.3.2024, a payment of ₹ 30,000 is due to Mr. X on account of a contract work. Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

Answer 8

In this case, the individual contract payments made to Mr. X does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2023-24 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 1.3.2024, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted@1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 (i.e., ₹ 30,000 - ₹ 1,030) has to be paid to Mr. X.

Question 9: illustration

Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate.

Answer 9

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Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds ₹ 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic modes. However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds ₹ 35,000. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).

Under section 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case.

However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled: -

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He has furnished a declaration to this effect along with his PAN.

Question 10: illustration

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases

- (i) **Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 31.3.2024, towards maturity proceeds of LIC policy taken on 1.4.2021, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.**
- (ii) **Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.3.2024 on LIC policy taken on 31.3.2012, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 30,100.**
- (iii) **Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2023 towards maturity proceeds of LIC policy taken on 1.8.2017 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 10,000.**

Answer 10

- (i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 31.3.2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @5% under section 194DA on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the aggregate amount of insurance premium paid).
- (ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- (iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 1.8.2021 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

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Question 11: illustration

Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss. Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

Answer 11

In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C. If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

Question 12: illustration

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2023. He has purchased the house property and the land in the year 2020 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2023, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

Answer 12

(i)	<p>Tax implications in the hands of Mr. X</p> <p>As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2024-25.</p> <p>Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.</p>
(ii)	<p>Tax implications in the hands of Mr. Y</p> <p>In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of ₹ 50,000 and 10% of the consideration.</p> <p>Therefore, in this case ₹ 25 lakh (₹ 85 lakh – ₹ 60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x).</p> <p>Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified thereunder.</p>

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(iii)	<p>TDS implications in the hands of Mr. Y</p> <p>Since the sale consideration of house property exceeds ₹ 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 60,000, being 1% of ₹ 60 lakh.</p> <p>TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.</p>
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Question 13: illustration (New SM)

XYZ Ltd. pays ₹ 50,000 per month as rent to the Mr. Kishore for a building in which one of its branches is situated. Discuss whether TDS provisions under section 194-I are attracted.

Answer 13

Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding ₹ 2,40,000 p.a., is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the financial year immediately preceding financial year in which such rent was credited or paid, is liable to deduct tax at source.

Since the rent paid by XYZ Ltd. to Mr. Kishore exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source attracted.

The rate applicable for deduction at source under section 194-I on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd.

Therefore, the amount of tax to be deducted at source

$$= ₹ 6,00,000 \times 10\% = ₹ 60,000$$

Question 14: illustration

Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June, 2023. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source. Would your answer change if Mr. X vacated the premises on 31st December, 2023? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Answer 14

Since Mr. X pays rent exceeding ₹ 50,000 per month in the F.Y. 2023-24, he is liable to deduct tax at source @5% of such rent for F.Y. 2023-24 under section 194-IB. Thus, ₹ 27,500 [₹ 55,000 x 5% x 10] has to be deducted from rent payable for March, 2024.

If Mr. X vacated the premises in December, 2023, then tax of ₹ 19,250 [₹ 55,000 x 5% x 7] has to be deducted from rent payable for December, 2023.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @20%, instead of 5%.

In case 1 above, this would amount to ₹ 1,10,000 [₹ 55,000 x 20% x 10], but the same has to be restricted to ₹ 55,000, being rent for March, 2024.

In case 2 above, this would amount to ₹ 77,000 [₹ 55,000 x 20% x 7], but the same has to be restricted to ₹ 55,000, being rent for December, 2023.

Question 15: illustration

XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2023 towards fees for professional services and another payment of ₹ 25,000 to him on the same

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date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

Answer 15

TDS provisions under section 194J would not get attracted, since the limit of ₹ 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2023-24.

Question 16: Illustration

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2023-24
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2022-23	Contract Payment for repair of residential house	₹ 5 lakhs
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000
2.	Mr. Rajesh, a wholesaler whose turnover was ₹ 95 lakhs in P.Y. 2022-23.	Contract Payment for reconstruction of residential house (made during the period January-March, 2024)	₹ 20 lakhs in January, 2022, ₹ 15 lakhs in Feb 2022 and ₹ 20 lakhs in March 2024.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2024	₹ 51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2023 for reconstruction of residential house	₹ 48 lakhs

Answer 16

	Particulars of the payer	Nature of payment	Aggregate of payments in the F.Y.2023-24	Whether provisions are attracted?	TDS are
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores	Contract Payment for repair of residential house	₹ 5 lakhs	No; TDS under section 194C is not attracted since the payment is for personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the	

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	in the P.Y.2022-23			payee in the P.Y.2023-24 does not exceed ₹50 lakh.
		Payment of commission to Mr. Vallish for business purposes	₹80,000	Yes, u/s 194H, since the payment exceeds ₹15,000, and Mr. Ganesh's turnover exceeds ₹1 crore in the P.Y.2020-21.
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹95 lakhs in P.Y. 2022-23	Contract Payment for reconstruction of residential house	₹55 lakhs	Yes, u/s 194M, since the aggregate of payments (i.e., ₹55 lakhs) exceed ₹50 lakhs. Since, his turnover does not exceed 1 crore in the P.Y.2022-23, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y.2023-24.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house	₹51 lakhs	Yes, u/s 194M, since the payment of ₹51 lakhs made in March 2024 exceeds the threshold of ₹50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.
4.	Mr. Dheeraj, a pensioner	Contract payment for reconstruction of residential house	₹48 lakhs	TDS provisions under section 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of ₹48 lakhs does not exceed the threshold of ₹50 lakhs.

Question 17: illustration

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Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2020-21 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2021-22 was ₹ 95 lakh (₹ 20 lakh on 1.6.2021, ₹ 25 lakh on 12.8.2021, ₹ 22 lakh on 23.11.2021 and ₹ 28 lakh on 25.3.2022). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2020-21 was ₹ 15 crores.

- (1) **Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.**
- (2) **Would your answer be different if Mr. Gupta's turnover for F.Y.2020-21 was ₹ 8 crores, all other facts remaining the same?**
- (3) **Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?**

Answer 17

- (1) Since Mr. Gupta's turnover for F.Y.2020-21 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2021-22, he is liable to deduct tax @ 0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner – No tax is to be deducted u/s 194Q on the payments made on 1.6.2021 and 12.8.2021, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs. Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2021 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit]. Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2022.

Note – In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

- (2) If Mr. Gupta's turnover for the F.Y.2020-21 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y.2020-21 and his receipts from Mr. Gupta exceed ₹ 50 lakhs. No tax is to be collected u/s 206C(1H) on 1.6.2021 and 12.8.2021, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs. Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2021 (₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit). account to which such sum is credited may be called "Suspense account" or by 25.3.2022.
- (3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax @ 5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2021 and 25.3.2022, respectively. In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax @ 1% instead of 0.1%. Accordingly, tax of ₹ 17,000 (i.e., 1% of ₹ 17 lakhs) and ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2021 and 25.3.2022, respectively.

Question 18: illustration

Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest @ 8% on fixed deposit of ₹ 20 lakh with the said bank. Out of the deposit of ₹ 20 lakh, ₹ 2 lakh represents five-year term deposit made by him on 1.4.2023. Interest on savings bank credited to his SBI savings account for the P.Y.2023-24 is ₹ 9,500.

- (1) **From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2024-25, assuming that he has not opted for section**

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- (2) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2024-25, if tax deductible at source has been fully deducted? Examine.
- (3) Is Mr. Sharma required to file his return of income for A.Y. 2024-25, if the fixed deposit of ₹ 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

Answer 18

- (1) **Computation of total income of Mr. Sharma for A.Y.2024-25**

Particulars	₹	₹
I Salaries		
Pension (52,000 x 12)	6,24,000	
Less: Standard deduction u/s 16(ia)	50,000	
		5,74,000
II Income from Other Sources		
Interest on fixed deposit (₹20 lakh x 8%)	1,60,000	
Interest on savings account	9,500	1,69,500
Gross total income		7,43,500
Less: Deductions under Chapter VI-A		
Under Section 80C		
Five year term deposit (₹ 2 lakh, restricted to ₹ 1.5 lakh)	1,50,000	
Under section 80TTB		
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	2,00,000
Total Income		5,43,500
Computation of tax liability for A.Y.2024-25		
Tax payable [₹43,500 x 20% + ₹10,000]		18,700
Add: Health and Education Cess@4%		748
Tax liability		19,448
Tax liability (rounded off)		19,450

- (2) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
- (3) If the fixed deposit of ₹ 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen", consequent to which SBI would not be liable to deduct tax under section 194P. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI- A) exceeds the basic exemption limit. It may be noted that in this case, TDS provisions u/s 192 would, in any case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax@10% under section 194-A on interest on fixed

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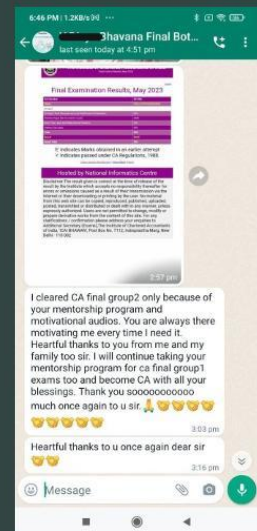
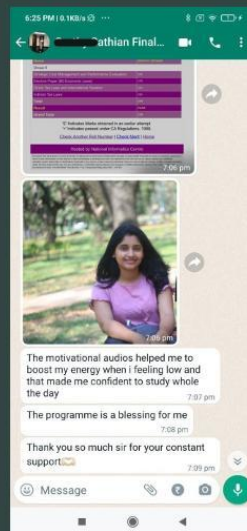
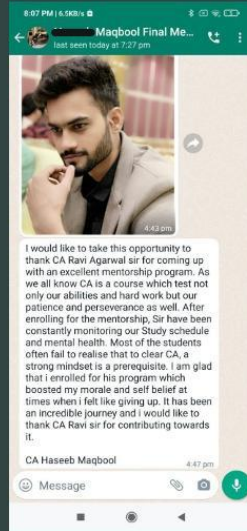
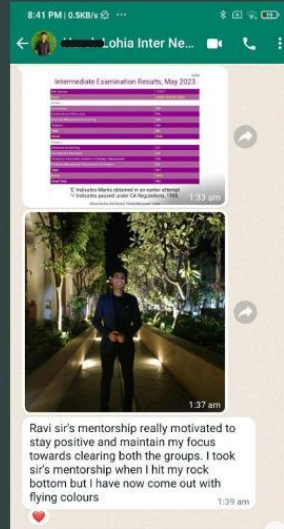
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deposit, since the same exceeds ₹ 50,000.

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Chapter 8

Provisions For Filing Return of Income And Self-Assessment

Attempt wise Distribution

Attempts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec '21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q6		Q4			Q5		Q3		
RTP				Q2	Q7, Q8							Q1
Q & A												
MTP	Q20	Q15,Q16, Q25	Q17,Q23, Q24		Q22, Q40		Q19, Q21	Q13	Q14, Q26, Q27	Q12, Q28	Q11, Q29	Q37
PYP	Q4,Q18, Q36	Q5,Q35	Q6,Q43	Q34		Q7	Q33	Q3	Q38, Q42	Q2	Q1, Q39	
RTP	Q30	Q10						Q41	Q31	Q9	Q32	Q8

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Mr. Sunil has filed his return of loss for A.Y. 2022-23 on 31.7.2022 and received a total refund of ₹ 44,500. On 15.9.2023, he would like to furnish his updated return of income for additional income. In case he furnished his updated return of income for additional income, he would be liable to pay ₹ 57,000 towards tax and ₹ 6,700 towards interest for additional income to be reported in updated return. Compute the additional income-tax payable by Mr. Sunil at the time of filing his updated return. (RTP Nov '23)
- (a) ₹ 27,050
 (b) ₹ 15,925
 (c) ₹ 14,250
 (d) ₹ 31,850

Ans : (a)

2. Arun's gross total income of P.Y. 2019-20 is ₹ 2,45,000. He deposits ₹ 45,000 in PPF. He pays electricity bills aggregating to ₹ 1.20 lakhs in the P.Y.2019-20. Which of the statements is correct?
- (a) Arun is not required to file his return of income u/s 139(1) for P.Y. 2019-20, since his total income before giving effect to deduction under section 80C does not exceed the basic exemption limit.
 (b) Arun is not required to file his return of income u/s 139(1) for P.Y. 2019-20, since his electricity bills do not exceed ₹ 2,00,000 for the P.Y.2019-20.
 (c) Arun is not required to file his return of income u/s 139(1) for P.Y. 2019-20, since neither his total income before giving effect to deduction under section 80C exceeds the basic exemption limit nor his electricity bills exceed ₹ 2 lakh for the P.Y.2019-20.
 (d) Arun is required to file his return of income u/s 139(1) for P.Y. 2019-20, since his

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electricity bills exceed ₹1 lakh for the P.Y.2019-20.(RTP Nov '19)

Ans: Answer is the (d)

3. **Mr. Laxman, born on 1.4.1962, has a gross total income of ₹ 2,85,000 for A.Y.2022-23 comprising of his salary income. He does not claim any deduction under Chapter VI-A. He pays electricity bills of ₹ 10,000 per month. He made a visit to Canada along with his wife for a month in January, 2022 for which he incurred to and fro flight charges of ₹ 1.20 lakhs. The remaining expenditure for his visa, stay and sightseeing amounting to ₹ 70,000 was met by his son residing in Canada. Is Mr. Laxman required to file return of income for A.Y.2022-23, and if so, why?**

- (a) No, Laxman is not required to file his return of income Yes, Laxman is required to file his return of income, since his gross total income/total income
- (b) exceeds the basic exemption limit
- (c) Yes, Laxman is required to file his return of income since he pays electricity bills of ₹ 10,000 per month, which exceeds the prescribed annual threshold
- (d) Yes, Laxman is required to file his return of income since he has incurred foreign travel expenditure exceeding ₹ 1 lakh **(MTP 2 Marks Sep'22)**

Ans: (c)

4. **Ms. Dilar who is not required to furnish return u/s 139(1) as his gross total income itself is less than basic exemption limit, has incurred expenditure of ₹ 2,00,000 for her daughter for travel to U.S.A. during P.Y. 2019-20. Is she required to file return for A.Y. 2020-21? If yes, what is the due date?**

- (a) Yes; 31st July, 2020
- (b) Yes; 30th September, 2020
- (c) Yes; 31st August, 2020
- (d) No, she is not required to file return of income for A.Y. 2020-21**(MTP 2 Marks, Oct'20)**

Ans: (d)

5. **Mr. Kumar, aged 62 years' resident and ordinarily resident, is a retired employee with a monthly pension of ₹ 15,000. He has no other source of income. He has a house property in Bhatinda and his only son is living in London and has a house over there. He met with an accident and died and thereby leaving the house at London in the name of his father, Mr. Kumar. Mr. Kumar seeks your advice, as to whether he is required to file his income-tax return u/s 139?**

- (a) Yes, he is mandatorily required to file his income-tax return as he is a resident and ordinarily resident in India and has asset located outside India
- (b) No, he is not required to file return of income as his income is below basic exemption limit
- (c) Yes, he is required to file his return of income as his income exceeds basic exemption limit
- (d) No, he is not required to file his return of income as he is a senior citizen and retired employee **(MTP 2 Marks, Oct'21)**

Ans :(a)

6. **Which of the following is not a consequence of late filing of return?**

- (q) Levy of interest under section 234A

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- (r) Loss (other than loss under the head "Income from house property") cannot be carried forward
- (s) No deduction under Chapter VI-A under the heading „B“ – Deduction in respect of certain payments
- (t) All of the above **(MTP 1 Mark, March'19)**

Ans : (c)

7. **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 **(RTP Nov '20)**

Ans: The Answer is (d)

8. **Mr. Pawan is engaged in the business of roasting and grinding coffee beans. During F.Y. 2018-19, his total income is ₹ 4.5 lacs. Mr. Pawan filed its return of income for A.Y. 2019-20 on 3rd March, 2020. Compute fee payable for default in furnishing in return of income for PQ & Associates for A.Y. 2019-20:**
- (a) ₹ 5,000
 - (b) Not exceeding ₹ 1,000
 - (c) ₹ 10,000
 - (d) No fees payable as total income is below ₹ 5,00,000 **(RTP May 20)**

Ans: The answer is (b)

Question & Answers

Question 1

A person other than a company or a firm who is otherwise not required to furnish the return of income, needs to furnish return of income provided they fulfil certain conditions prescribed. Enumerate. (PYP 4 Marks May'23)

Answer 1

A person, other than a company or a firm, who is not required to furnish a return under section 139(1), has to furnish their return of income on or before the due date if they fulfill any of the following conditions -

- (i) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- (ii) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- (iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or

However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more.

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- (iv) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year

Question 2

Mr. A employed with B Pvt. Ltd. residing in Chennai, filed his return of Income on 30 th July. He has no other income other than salary. He however has failed to link his Aadhar with PAN as on return filing date.

- (i) **What is the last date for linking Aadhar with PAN?**
- (ii) **What is the consequence for him if he has linked the Aadhar with PAN on 31 st August 2022?**
- (iii) **Are there any exceptions provided under section 139AA from quoting of Aadhar number? (PYP 4 Marks Nov '22)**

Answer 2

Every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhar Number, has to intimate his Aadhar Number to prescribed authority on or before 31st March, 2022.

Since, Mr. A fails to link his Aadhar number with PAN on or before 31.3.2022, consequently, at the time of linking his Aadhaar number with PAN on 31.8.2022, he would be liable to pay fee of ₹ 1,000 as per section 234H.

Yes, the following are the exceptions -

An individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India

Question 3

Mr. Sitaram is engaged in the business of trading of cement having turnover of ₹ 10 crores during the financial year 2021-215. As a tax consultant advise him what are the particulars to be furnished under section 139(6A) along with Return of Income? (PYP 4 Marks Dec '21)

Answer 3

Since Mr. Sitaram's turnover from business of trading of cement is ₹ 10 crores which exceeds ₹ 1 crore, being the threshold limit for tax audit under section 44AB, he is subjected to tax audit.

Accordingly, Mr. Sitaram, is required to furnish the following particulars along with his return of income -

- (i) the report of audit referred to in section 44AB.
- (ii) the particulars of the location and style of the principal place where he carries on the business or profession and all the branches thereof.

Question 4

Indicate the three situations where the return of income has to be compulsorily filed u/s 139(1) of the Income-tax Act, 1961. (PYP 6 Marks, May'18)

Answer 4

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Situations where Return of Income has to be compulsorily filed under section 139(1)

- (i) Companies and firms (whether having profit or loss or nil income);
- (ii) a person, being a resident other than not ordinarily resident, who holds, as beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India or has signing authority in any account located outside India, or is a beneficiary of any asset (including any financial interest in any entity) whether or not having income chargeable to tax;
- (iii) Individuals, HUFs, AOPs or BOIs and artificial juridical persons whose total income before giving effect to the provisions of section 10(38) and Chapter VI-A deductions and **sections 54, 54B, 54D, 54EC or 54F (inserted as per amendment)** exceeds the basic exemption limit.

Question 5

Every person is required to file a return of income on or before due date in the prescribed form and manner as per section 139(1). What is the meaning of due date of filing Income-tax Returns for different categories of assesses as per section 139(1) of the Income-tax Act 1961? (PYP 4 Mark, Nov'18)

Answer 5

Due date' for filing of return of income as per section 139(1):

- (i) 30th September **(As per amendment 31st October)** of the assessment year, where the assessee, other than an assessee referred to in (ii) below, is -
 - (a) a company,
 - (b) a person (other than a company) whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force; or
 - (c) a working partner of a firm whose accounts are required to be audited under the Income-tax Act, 1961 or any other law for the time being in force.
- (ii) 30th November of the assessment year in case of an assessee including partners of a firm being such assessee who is required to furnish report referred to in section 92E. (As per amendment)
- (iii) 31st July of the assessment year, in the case of any other assessee.

Note: In the case of an assessee who is required to furnish a report referred to in section 92E, the due date for filing return of income is 30th November of the assessment year.

Question 6

Discuss the provisions of section 139A (1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the Assessing Officer. (PYP 4 Marks. May'19)

Answer 6

Persons who are mandatorily required to apply for PAN as per section 139A(1)	
(i)	Every person whose total income or the total income of any other person in respect of which he is assessable under the Income-tax Act, 1961 during any previous year exceeds the basic exemption limit
(ii)	Every person carrying on business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5 lakh in any previous year

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(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 the managing director, director, partner, trustee, author, founder, karat, chief executive officer, principal officer or office bearer of the person referred to in (iii) above or any person competent to act on behalf of the person referred to in (iii) above.

Question 7

Mr. Hari aged 57 years is a resident of India. He provides you the following details of his incomes pertaining to F.Y. 2019-20.

- **Interest on Non-Resident (External) Account maintained with State Bank of India as per RBI stipulations** - ` 3,55,000
- **Interest on savings bank account maintained with State Bank of India** - ` 8,000
- **Interest on Fixed Deposits with Punjab National Bank** - 40,000

He seeks your advice on his liability to file return of income as per Income-tax Act, 1961 for the Assessment Year 2020-21.

What will be your answer, if he has incurred ` 4 lakhs on travel expenses of his newly married son and daughter in law's honeymoon in Canada? (PYP 4 Marks, Jan'21)

Answer 7

- (b) An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e., ` 2,50,000.
- (c) Computation of total income of Mr. Hari for A.Y. 2020-21

Particulars	
Income from other sources	
Interest earned from Non-resident (External) Account ` 3,55,000 [Exempt u/s 10(4)(ii), since he is maintaining the said account as per RBI stipulations]	NIL
Interest on savings bank account	8,000
Interest on fixed deposit with Punjab National Bank	40,000
Gross Total Income	48,000
Less: Deduction u/s 80TTA (Interest on saving bank account)	8,000
Total Income	40,000

Since the total income of Mr. Hari for A.Y.2020-21, before giving effect, inter alia, to the deductions under Chapter VI-A, is less than the basic exemption limit of ` 2,50,000, he is not required to file return of income for A.Y.2020-21.

However, if he has incurred expenditure exceeding ` 2 lakhs for himself or any other person for travel to a foreign country, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since he has incurred expenditure of ` 4 lakhs on foreign travel of his newly married son and daughter in law in the F.Y. 2019-20, he has to mandatorily file his return of income for A.Y. 2020 -21 on or before the due date under section 139(1).

Question 8

Who is authorized to verify the return of income of the following assesseees?

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Paper 3 - Taxation

- (a) **HUF whose Karta is absent from India**
- (b) **Company where the company is being wound up**
- (c) **Local authority**
- (d) **Individual who is mentally incapacitated from attending to his affairs(RTP Nov '23)**

Answer 8**Person authorized to verify return of income**

S.No	Assessee	Authorised Persons
(a)	HUF whose karta is absent from India	Any other adult member of the HUF
(b)	Company where the company is being wound up	Liquidator
(c)	Local authority	The principal officer
(d)	Individual who is mentally incapacitated from attending to his affairs	His guardian or any other person competent to act on his behalf

Question 9

Mr. Vikas, a resident in India aged 80 years, is having a house property in Mumbai. He has let out the house property to ABC Ltd. for a rent of ₹ 50,000 per month from 1.4.2021. He does not have any other source of income. Is Mr. Vikas required to file his return of income for A.Y. 2022-23. If yes, why? (RTP Nov'22)

Answer 9

An individual whose total income exceeds the maximum amount not chargeable to tax i.e., ₹ 5,00,000 in this case since Mr. Vikas is of 80 years, is required to file a return of income on or before the due date under section 139(1) i.e., 31st July, 2022.

Clause (iv) of seventh proviso to section 139(1) provides that a person (other than a company or a firm) who is not required to furnish a return u/s 139(1) has to furnish return on or before the due date if the person fulfills such other conditions as may be prescribed.

Accordingly, vide Notification no. 3/2022 dated 21.4.2022, the CBDT inserted Rule 12AB which prescribes, inter alia, that in case of resident individual who is aged 60 years or more at any time during the relevant P.Y. is required to file his return of income if the aggregate of tax deducted at source and tax collected at source, in his case, during the P.Y. is ₹ 50,000 or more.

In this case, Mr. Vikas's total income would comprise of only income from house property from let out of house property in Mumbai. His total income would be ₹ 4,20,000 [₹ 6,00,000 – 30% under section 24(a)], which is below the basic exemption limit of ₹ 5,00,000.

ABC Ltd. is required to deduct tax at source u/s 194-I @10% of ₹ 6,00,000. Tax deductible would be ₹ 60,000. Since tax deducted at source in case of Mr. Vikas is more than ₹ 50,000, he has to furnish his return of income for A.Y. 2022-23 on or before 31.07.2022, even though his total income is below the basic exemption limit of ₹ 5,00,000.

Note – It is assumed that Mr. Vikas has neither made an application to the Assessing Officer u/s 197 nor furnished declaration to ABC Ltd. u/s 197A for non-deduction of

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tax. In case, he has obtained the certificate u/s 197 or furnished declaration to ABC Ltd. u/s 197A, no tax would have been deducted by ABC Ltd. on rental income. Consequently, Mr. Vikas would not be required to file his return of income.

Question 10

Mr. Atharv filed his return of income on 30th September, 2018 related to Assessment Year 2018-19. In the month of October 2018, his tax consultant found that the interest on fixed deposit was omitted in the tax return. Can Mr. Atharv file a revised return?

Assume that the due date for furnishing return of income in his case, was 31st July, 2018 and the assessment was not completed till the month of October 2018.(RTP Nov '18)

Answer 10

As per section 139(5), if any person, having furnished a return under section 139(1), within the due date or a belated return under section 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time –

- (a) before the end of the relevant assessment year or
- (b) before the completion of assessment, whichever is earlier.

For assessment year 2018-19, the belated return has to be furnished before 31st March 2019 or before completion of assessment, whichever is earlier.

(As per amendment from AY 2021-22 onwards a belated/revised return can be filed by 31st December of the relevant assessment year)

Since Mr. Atharv has filed his return after 31.7.2018, being the due date of filing return of income under section 139(1) in his case, but before 31.3.2019/completion of assessment ***(as per amendment 31st Dec of the relevant AY)***, the said return is a belated return. Thus, in the present case, Mr. Atharv can file a revised return, since he has found an omission in the belated return filed by him for A.Y.2018-19 and assessment is yet to be completed⁵ and 31.3.2019 ***(as per amendment 31st Dec of the relevant AY)***, being the end of A.Y.2018-19 has not elapsed.

Question 11

Mr. X would like to furnish his updated return for the A.Y. 2021-22. In case he furnished his updated return of income, he would be liable to pay ₹ 2,50,000 towards tax and ₹ 35,000 towards interest after adjusting tax and interest paid at the time filing earlier return. You are required to examine whether Mr. X can furnish updated return

- (i) as on 31.3.2023
- (ii) as on 28.2.2024
- (iii) as on 31.5.2024

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return. (MTP 3 Marks April '23)

Answer 11

Mr. X may furnish an updated return of his income for A.Y. 2021-22 at any time within 24 months from the end of the relevant assessment year i.e., 31.3.2024.'

Accordingly, Mr. X can furnish updated return for A.Y. 2021-22 as on 31.3.2023 and on 28.2.2024. However, he cannot furnish such return as on 31.5.2024, since such date falls after 31.3.2024.

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Mr. X would be liable to pay additional income-tax

- @25% of tax and interest payable, if updated return is furnished after the expiry of the time limit available under section 139(4) or 139(5) i.e., 31st December 2022 and before the expiry of 12 months from end of relevant assessment year i.e., 31.3.2023
- @50% of tax and interest payable, if updated return is furnished after the expiry of 12 months from end of relevant assessment year i.e., 31.3.2023 and before the expiry of 24 months from end of relevant assessment year i.e., 31.3.2024.

Accordingly, Mr. X is liable to pay additional income-tax in case he furnished his updated return as on

- (i) 31.3.2023 - ₹ 71,250 [25% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]
- (ii) 28.2.2024 of ₹ 1,42,500 [50% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]

Question 12

State any three conditions when a person is required to furnish Income-tax return in the prescribed form & manner on or before the due date even if such person (other than a company or a firm) is not otherwise required to furnish a return u/s 139(1). (MTP 3 Marks Oct'22)

Answer 12

Conditions when a person is required to furnish return of income on or before the due date even if he is otherwise not required to furnish return under section 139(1)

Any person, other than a company or a firm, who is not required to furnish a return under section 139(1), is required to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person

- (ii) has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or
- (iii) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 2 lakh for himself or any other person for travel to a foreign country; or
- (i) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 1 lakh towards consumption of electricity; or
- (ii) fulfils such other prescribed conditions.

Rule 12AA provides that a person, other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income on or before the due date in the prescribed form and manner -

- (a) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- (b) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- (c) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or

However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more.

- (d) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.

Question 13

Mr. Naksh has undertaken certain transactions during the F.Y.2020-21, which

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are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

S.No.	Transaction
1.	Payment of life insurance premium of Rs. 40,000 in the F.Y.2020-21 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of Rs. 1,10,000 to RBI for acquiring its bonds
3.	Applied for issue of credit card to SBI
4.	Payment of Rs. 1,00,000 by account payee cheque to travel agent for travel to Singapore for 3 days to visit

(MTP 4 Marks, Nov'21)

Answer 13

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of Rs. 40,000 in the F.Y.2020-21 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed Rs. 50,000 in the F.Y.2020-21.
2.	Payment of Rs. 1,10,000 to RBI for acquiring its bonds	Yes, since the amount paid exceeds Rs. 50,000
3.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.
4.	Payment of Rs. 1,00,000 by account payee cheque to travel agent for travel to Dubai for 3 days to visit	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds Rs. 50,000

Question 14

What are the consequences of failure to intimate Aadhar Number. Is there any fee for such default?(MTP 4 Marks April 22)

Answer 14

If a person, who has been allotted PAN as on 1.7.2017 and is required to intimate his Aadhar number under section 139AA(2), has failed to intimate the same on or before 31.3.2022, the PAN of such person would become inoperative immediately after 31.3.2022 for the purpose of furnishing, intimating or quoting under the Income-tax Act, 1961.

Where a person, whose PAN has become inoperative, is required to furnish, intimate or quote his PAN under the Act, it shall be deemed that he has not furnished, intimated or quoted the PAN, as the case may be, in accordance with the provisions of the Act and he would be liable for all the consequences under the Act for not furnishing, intimating or quoting the PAN.

Where a person, who is required to intimate his Aadhar Number under section 139AA(2), fails to do so on or before the notified date i.e., 31.3.2022, he shall be liable to pay such fee, as may be prescribed, at the time of making intimation under section 139AA(2) after 31.3.2022.

However, such fee shall not exceed ₹ 1,000.

Question 15

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Pertaining to the following transactions, what is the minimum amount above which quoting Permanent Account Number is mandatory?

- (i) **Opening a demat account with a depository**
- (ii) **Purchase of bank draft from a banking company**
- (iii) **Payment for purchase of any foreign currency at any one time.**
- (iv) **Payment to a company for acquiring debentures issued by it.**
- (v) **Payment as life insurance premium to an insurer (MTP 5 Marks, Aug'18)**

Answer 15

Monetary limit for mandatory quoting of PAN

	Transaction	Amount above which quoting of PAN is mandatory
(i)	Opening a demat account with a depository.	All such transactions (There is no minimum amount)
(ii)	Purchase of bank draft from a banking company	Payment in cash of an amount exceeding Rs. 50,000 during any one day
(iii)	Payment for purchase of any foreign currency at any one time	Payment in cash of an amount exceeding Rs. 50,000
(iv)	Payment to a company for acquiring debentures issued by it	Amount exceeding Rs. 50,000.
(v)	Payment as life insurance premium to an insurer	Amount aggregating to more than Rs. 50,000 in a financial year

Question 16

Specify the persons who are authorized to verify under section 140, the return of income filed under section 139 of the Income-tax Act, 1961 in the case of:

- (i) **Political party;**
 - (ii) **Local authority;**
 - (iii) **Association of persons, and**
 - (iv) **Limited Liability Partnership (LLP).**
- (MTP 4 Marks, Oct'18)**

Answer 16

The following persons (mentioned in Column III below) are authorised as per section 140, to verify the return of income filed under section 139:

I	II	III
(i)	Political party	Chief Executive Officer of such party (whether known as secretary or by any other designation).
(ii)	Local authority	Principal Officer thereof.
(iii)	Association of Persons	Any member of the association or the principal officer thereof.
(iv)	LLP	Designated partner, or Any partner,
		- where the designated partner is not able to verify the return for any unavoidable reason;
		- where there is no designated partner or any other person prescribed for this purpose can verify the return. (as per amendment)

Question 17

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Paper 3 - Taxation

Who are the persons authorized to verify return of income in the case of following persons:

- (i) **Local authority**
- (ii) **Firm, having no managing partner (MTP 2 Marks, April'19)**

Answer 17

Return of income to be verified by whom

	Person	Return of income to be verified by
(I)	Local authority	The principal officer
(ii)	Firm, having no managing partner	Any partner of the firm, not being a minor

Question 18

Briefly mention the provisions of Income-tax Act, 1961 with regard to quoting Aadhar Number under section 139AA of the Act. (PYP 5 Marks, May'18)

Answer 18

Provisions of Income-tax Act, 1961 relating to quoting of Aadhar Number under section 139AA

Every person who is eligible to obtain Aadhar Number is required to mandatorily quote Aadhar Number, on or after 1st July, 2017:

- (a) in the application form for allotment of Permanent Account Number (PAN)
- (b) in the return of income

The provisions of section 139AA relating to quoting of Aadhar Number would, however, not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India.

If a person does not have Aadhar Number, he is required to quote Enrolment ID of Aadhar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him. Every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhar Number, shall intimate his Aadhar Number to prescribed authority on or before a date as may be notified by the Central Government.

(As per amendment if a person fails to intimate the Aadhar Number, PAN allotted to such person should be made inoperative after the notified date.)

Question 19

Mr. Praveen, due to inadvertent reasons, failed to file his income-tax return for the assessment year 2021-22 on or before the due date of filing such return of income.

- (i) **Can he file the above return after due date of filing return of income? If yes, which is the last date for filing the above return?**
- (ii) **What are the consequences of non-filing the return within the due date under section 139(1)? (MTP 4 Marks, March'21,)**

Answer 19

If any person fails to furnish a return within the time allowed to him under section 139(1), he may furnish the belated return for any previous year at any time -

- (i) before the end of the relevant assessment year; or
- (ii) before the completion of the assessment, whichever is earlier. **(As per amendment before 31st December of the relevant Assessment Year)**

The last date for filing return of income for A.Y.2021-22, therefore, is 31st March 2022. Thereafter, Mr. Praveen cannot furnish a belated return after this date.

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Consequences for non-filing return of Income within the due date under section 139(1) **Carry forward and set-off of certain losses:** Business loss, speculation business loss, loss from specified business under section 35AD, loss under the head "Capital Gains"; and loss from the activity of owning and maintaining race horses, would not be allowed to be carried forward for set-off against income of subsequent years, where a return of income is not furnished within the time allowed under section 139(1).

Interest under section 234A: Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1)

till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

Fee under section 234F: Fee of Rs. 5,000 would be payable under section 234F, if the return of income is not filed on or before the due date specified in section 139(1) but filed on or before 31st December of the assessment year and Rs. 10,000 would be the fee payable under section 234F where the return is furnished after 31st December of the assessment year. However, such fee cannot exceed Rs. 1,000, if the total income does not exceed Rs. 5,00,000.

(As per amendment If return is filed after due date and the total income is under Rs 5,00,000 then late filing fee will be Rs. 1000 and if total income exceeds Rs. 5,00,000 the late filing fee will be Rs. 5,000.)

Question 20

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
 - (ii) Return already revised once under section 139(5).
 - (iii) Return of loss filed under section 139(3).
- (MTP 3 Marks, March'18,)**

Answer 20

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (i) A belated return filed under section 139(4) can be revised.
- (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

Question 21

ii. What is the fee for default in furnishing return of income u/s 234F?

iii. To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply? (MTP 4 Marks, April'21)

Answer 21

- (i) **Fee for default in furnishing return of income u/s 234F**

(As per amendment If return is filed after due date and the total income is under Rs 5,00,000 then late filing fee will be Rs. 1000 and if total income exceeds Rs. 5,00,000 the late filing fee will be Rs. 5,000.)

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- (ii) Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply
The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:
- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
 - (ii) a non-resident as per Income-tax Act, 1961;
 - (iii) of the age of 80 years or more at any time during the previous year;
 - (iv) not a citizen of India.

Question 22

Mr. Varun filed return on 30th September, 2020 related to Assessment Year 2020-21. In the month of October 2020, his tax consultant found that the interest on fixed deposit was omitted in the tax return.

- (i) What is the time limit for filing a belated return?
- (ii) Can Mr. Varun file a revised return?

Justify the above with the relevant provisions under section 139.

Assume that the due date for furnishing return of income was 31st July, 2020 and the assessment was not completed till the month of October 2020. (MTP 4 Marks, Oct'20)

Answer 22

- (i) As per section 139(4), a belated return for any previous year may be furnished at any time -
- (a) before the end of the relevant assessment year; or
 - (b) before the completion of the assessment, whichever is earlier.

For assessment year 2020-21, the belated return has to be furnished before 31st March 2021 or before completion of assessment, whichever is earlier.

(As per amendment from AY 2021-22 onwards a belated/revised return can be filed by 31st December of the relevant assessment year)

- (ii) As per section 139(5), if any person, having furnished a return within the due date or a belated return, discovers any omission or any wrong statement therein, he may furnish a revised return at any time -
- a. before the end of the relevant assessment year or
 - b. before the completion of assessment, whichever is earlier.

Since Mr. Varun has filed his return after 31.7.2020, being the due date under section 139(1) in his case, but before 31.3.2021/completion of assessment, the said return is a belated return under section 139(4).

Thus, in the present case, Mr. Varun can file a revised return, since he has found an omission in the belated return filed by him for A.Y.2020-21 and assessment is yet to be completed and assessment year has not elapsed as of October, 2020.

Question 23

Mr. Salish, a resident individual aged 54, furnishes his income & other details for the P.Y. 2018-19:

- (i) **Income of Rs.8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.**
- (ii) **Income from other sources Rs.2,70,000.**
- (iii) **Tax deducted at source Rs. 25,000.**
- (iv) **Advance tax paid Rs.1,03,000 during the P.Y. 2018-19.**

Return of income filed on 11-12-2019. Calculate the interest payable under section 234B of the Income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case. (MTP 5 Marks, April'19)

Paper 3 - Taxation

Answer 23

Computation of interest payable under section 234B by Mr. Salish

Particulars	Rs.
Tax on total income of Rs.10,80,000 [Business income of Rs.8,10,000 +	1,36,500
Income from other sources of Rs.2,70,000]	
Add: Health and education cess@4%	5,460
Tax on total income	1,41,960
Less: Tax deducted at source	25,000
Assessed Tax	1,16,960
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is loveable since advance tax of Rs.1,03,000 paid	
is less than Rs.1,05,264, being 90% of assessed tax	
Number of months from 1 st April, 2019 to 11 th December, 2019, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months	1,251
on Rs.13,900 [i.e., difference between assessed tax of Rs.1,16,960 and	
advance tax of Rs.1,03,000 paid, being Rs.13,960 which is rounded off to	
Rs.13,900 under Rule 119A of Income-tax Rules, 1962]	

Consequences for delay in filing return of income on or before the due date

Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Salish's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2019-20, in his case, is 30.09.2019. Mr. Salish has filed his return on 11.12.2019 i.e., interest under section 234A will be payable for 3 months (from 1.10.2019 to 11.12.2019) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., RRs. 13,960 rounded off to Rs. 13,900 under Rule 119A of Income-tax Rules, 1962

Interest u/s 234A = Rs. 13,900 x 1% x 3 = Rs.417

Fee for late filing of return under section 234F

Since Mr. Sailesh has furnished his return of income after the due date but before 31.12.2019 and his total income exceeds Rs.5 lakhs, a fee of Rs. 5,000 will be payable by him.

(As per amendment If return is filed after due date and the total income is under Rs 5,00,000 then late filing fee will be Rs. 1000 and if total income exceeds Rs. 5,00,000 the late filing fee will be Rs. 5,000.)

Since Mr. Sailesh has furnished his return of income after the due and his total income exceeds Rs.5 lakhs, a fee of Rs. 5,000 will be payable by him.

Question 24

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (i) **The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.**

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- (ii) **Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family. (MTP 3 Marks, March'19, Oct'21, Old SM)**

Answer 24

- i. **True:** Section 139A (2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.
- ii. **False:** Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

Question 25

Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required? (MTP 4 Marks, Oct'18, Old SM)

Answer 25

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A (2),
- loss under the head “Capital Gains” to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A (3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation can be carried forward even if return of loss has not been filed as required under section 139(3).

Question 26

Mr. Prince, a senior citizen, has reported a Total Income ₹ 1,90,000. He has claimed exemption of ₹ 50,000 under section 54EC in respect of long term capital gain on sale of house property and deductions under Chapter VI-A amounting to ₹ 1,50,000 for the previous year 2021-22. Is he liable to file his return of income under section 139(1) for the Assessment year 2022 -23? If so why? (MTP 3 Marks March 22, RTP May '19)

Answer 26

As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, inter alia, section 54EC and Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Prince, a senior citizen is required to file return of income, since his total income of ₹ 3,90,000 before giving effect to the exemption under section 54EC and deduction of ₹ 1,50,000 under Chapter VI-A, exceeds the basic exemption limit of ₹ 3,00,000 applicable in his case.

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Question 27

Mr. Rakesh has submitted his income-tax return containing certain losses/deductions in respect of the P.Y. 2021-22 on 22.10.2022. The due date for filing the return for Mr. Rajesh was 31st July, 2022 under section 139(1). You are required to examine with reference to the relevant provisions of Income-tax Act, 1961 whether the following losses/deductions can be carried forward/claimed in subsequent years by Mr. Rakesh.

- (iii) **Loss from the business carried on by him as a proprietor: ₹ 10,80,000 (computed)**
- (iv) **Unabsorbed Depreciation: ₹ 2,00,000 (computed)**
- (v) **Loss from House property: ₹ 2,50,000 (computed) (MTP 3 Marks April 22, RTP May '20)**

Answer 27

Mr. Rakesh has furnished his return of income for A.Y.2022-23 on 22.10.2022, i.e., after the due date specified under section 139(1) i.e., 31st July 2022. Hence, the return is a belated return under section 139(4). As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year. The specified losses include, inter alia, business loss but does not include loss from house property and unabsorbed depreciation.

Accordingly, business loss of ₹ 10,80,000 of Mr. Rakesh for A.Y. 2022-23, not determined in pursuance of a return of loss, filed within the time specified in section 139(1), cannot be carried forward to A.Y.2023-24.

However, the loss of ₹ 2,50,000 from house property and unabsorbed depreciation of ₹ 2,00,000 pertaining to A.Y.2022-23, can be carried forward to A.Y.2023-24 for set-off, even though Mr. Rakesh has filed the return of loss for A.Y.2022-23 belatedly.

Question 28

Enumerate the cases where a return of loss has to be filed on or before the due date specified u/s 139(1) for carry forward of the losses. Also enumerate the cases where losses can be carried forward even though the return of loss has not been filed on or before the due date. (MTP 4 Marks Sep'22, PYP 4 Marks Jul'21)

Answer 28

As per section 139(3), an assessee is required to file a return of loss within the due date specified u/s 139(1).

As per section 80, certain losses which have not been determined in pursuance of a return filed under section 139(3) on or before the due date specified under section 139(1) cannot be carried forward and set-off. Thus, the assessee has to file a return of loss under section 139(3) within the time allowed u/s 139(1) in order to carry forward and set off of following losses:

- loss under the head "Capital Gains",
- loss from activity of owning and maintaining race horses.
- business loss,
- speculation business loss and
- loss from specified business.

However, following can be carried forward for set-off even if the return of loss has not been filed before the due date:

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- Loss under the head "Income from house property" and
- Unabsorbed depreciation.

Question 29

Mr. Ram furnished his return of income for the A.Y. 2023 -24 on 20.07.2022. Due to missing information for payment of taxes in the return of income, the Assessing Officer considers it defective under section 139(9) of the Income-tax Act, 1961.

- (i) **What are the consequences if defect is not rectified within the time allowed?**
- (ii) **Specify the remedies available if not rectified within time allowed by the Assessing Officer? (MTP 3 Marks March '23)**

Answer 29

- i. If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
- ii. The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

Question 30

Ms. Geetha submits her return of income on 29-09-2018 for A.Y 2018-19 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 01- 02-2019, she realized that she had not claimed deduction under section 80D in respect of medical insurance premium of ₹ 15,000 paid for her mother. She wants to revise her return of income. Can she do so? Examine. Would your answer be different if she discovered this omission on 02-04-2019?(RTP May '18)

Answer 30

Since Ms. Geetha has income only under the heads "Salaries", "Income from house property" and "Income from other sources", she does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961. Therefore, the due date of filing return for A.Y.2018-19 under section 139(1), in her case, is 31st July, 2018. Since Ms. Geetha had submitted her return only on 29.9.2018, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised, if she discovers any omission or wrong statement therein. Thus, a belated return under section 139(4) can also be revised. Therefore, Ms. Geetha can revise the return of income filed by her under section 139(4) in February 2019, to claim deduction under section 80D, since the time limit for filing a revised return is upto the end of the relevant assessment year, which is 31.03.2019.

However, she cannot revise return had she discovered this omission only on 02-04-2019, since it is beyond 31.03.2019, being the end of A.Y. 2018 -19.

(As per amendment from AY 2021-22 onwards a belated/revised return can be filed by 31st December of the relevant assessment year)

Question 31

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Mrs. Shivani is a US Citizen. She got married to Mr. Sriram, an Indian citizen and resident of India, in the year 2015. Since then, she has been staying in India. She has a Bank account in US. She sold a residential house in US and earned a long term capital gain of ₹ 2 lakhs. She invested the whole sales consideration in Capital Gain bonds under section 54EC so that no long term capital gain is taxable. She does not have any source of income in India during the P.Y. 2021-22. Is she required to furnish her return of income? If yes, can she furnish a belated return?(RTP May '22)

Answer 31

An individual whose total income without giving effect to, inter alia, section 54EC exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000, is required to file a return of income on or before the due date under section 139(1) i.e., 31st July, 2022.

Every person, being a resident other than not ordinarily resident in India, would be required to file a return of income or loss for the previous year, even if his total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India or has a signing authority in any account located outside India.

In this case, Mrs. Shivani is a resident and ordinarily resident in India for A.Y. 2022-23 since she has been staying in India since the year 2015. Total income of Mrs. Shivani without giving effect to, inter alia, section 54EC is ₹ 2 lakhs, which is below the basic exemption limit. However, since she has a bank account in US, she has to furnish her return of income for A.Y. 2022-23 on or before 31.07.2022.

Yes, she can furnish a belated return under section 139(4), if she has not furnished her return on or before 31.7.2022, at any time before the –

- (i) three months prior to the end of the relevant assessment year i.e., 31.12.2022; or
- (ii) completion of the assessment whichever is earlier.

Question 32

Mr. Aakash has undertaken certain transactions during the F.Y.2022 -23, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –(RTP May '23)

S.No	Transaction
1.	Opening a current account with HDFC Bank
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh
4.	Purchase of a professional laptop of ₹ 3 lakhs

Answer 32

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Opening a current account with HDFC Bank	Yes, quoting of PAN is mandatory on opening of a current account by a person with bank.
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000	Yes, since the amount for sale of unlisted shares exceeds ₹ 1,00,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh	Since the purchase is of two wheeler motor vehicle, quoting of PAN is not mandatory

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4.	Purchase of a professional laptop of ₹ 3 lakhs	Yes, since the amount paid exceeds ₹ 2,00,000
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Question 33

In the following cases relating to P.Y.2020-21, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under Income-tax Act does not exceed the basic exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for A.Y.2021-22 in each of the following independent situations:

- (i) **Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of ₹ 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable. (PYP 1½ Marks, July'21)**
- (ii) **Mrs. Archana was born in Germany and married in India. Her residential status under section 6(6) of the Income-tax Act, 1961 is 'resident and ordinarily resident'. She owns a car in Germany which she uses for her personal purposes during her visit to her parents' place in that country. (PYP 1½ Marks, July'21)**
- (iii) **Sudhakar has incurred an expenditure of ₹ 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels. (PYP 1 Mark, July'21)**

Answer 33

- (i) A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit of ₹ 2,50,000, is required to file a return of its income on or before the due date under section 139(1). In this case, since the total income without giving effect to exemption under section 54EC is ₹ 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2021-22 on or before the due date under section 139(1).

- (ii) Every person, being a resident other than not ordinarily resident in India would be required to file a return of income or loss for the previous year on or before the due date, even if his or her total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India. In this case, though Mrs. Archana owns a car in Germany, the same does not fall within the ambit of "capital asset" as it is a personal effect. Hence, Mrs. Archana is not required to file her return of income for A.Y. 2021-22 on account of owning a car for personal purposes in Germany.

Note – "Asset" for the purpose of the fourth proviso to section 139(1) has not been specifically defined in the said section or elsewhere in the Act. Schedule FA of the income-tax return forms, however, requires details of foreign assets for the purpose of filing of return of income under this provision. The foreign assets listed in the said Schedule does not include car. It, however, includes "any other capital assets outside India". Car used for personal purposes is not a capital asset as it is a "personal effect". Hence, it is not included in the meaning of "asset" for the purpose of the fourth proviso to section 139(1). The above answer is based on the view taken regarding the ambit of the term "asset", based on the list of assets detailed in the relevant schedule of the income-tax return forms.

Alternative view - On the plain reading of the fourth proviso to section 139(1) and the general meaning attributable to the word "asset", it is possible to take a view that Mrs. Archana is required to file her return of income as she owns an asset, i.e., a car in Germany. Accordingly, due credit may also be given to the candidates who have answered on this basis.

- (iii) If an individual has incurred expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of

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income, even if his total income does not exceed the basic exemption limit. Since Mr. Sudhakar has incurred expenditure of ₹ 1,20,000 in the P.Y.2020-21 towards consumption of electricity, he has to file his return of income for A.Y. 2021-22 on or before the due date under section 139(1).

Question 34

Elaborate the conditions, non-fulfilment of which would render a return of income filed by an assessee not maintaining regular books of accounts, defective. (PYP 4 Marks, Nov'19)

Answer 34

Where regular books of account are not maintained by the assessee, the return should be accompanied by

- (i) a statement indicating -
 - (1) the amount of turnover or gross receipts,
 - (2) gross profit,
 - (3) expenses; and
 - (4) net profit of the business or profession;
- (ii) the basis on which such amounts mentioned in (i) above have been computed,
- (iii) the amounts of total sundry debtors, sundry creditors, stock-in-trade and cash balance as at the end of the previous year.

Note: The above answer is based on the provisions of section 139(9) of the Income-tax Act, 1961. However, since returns are now required to be e-filed, many of the details need to be incorporated as part of the relevant return form itself.

Question 35

Explain the quantum of late fees under section 234F for delay in furnishing return of income within the prescribed time limit under section 139(1) for A.Y. 2018-19. (PYP 3 Marks, Nov'18)

Answer 35

Quantum of late fee for delay in furnishing return of Income Late fee under section 234F is attracted where a person, who is required to furnish a return of income under section 139, fails to do so within the time limit prescribed under section 139(1).

Quantum of Late Fee	Circumstances
₹ 5,000	If the return is furnished on or before the 31st December of the assessment year;
₹ 10,000	In any other case
However, if the total income of the person does not exceed ₹ 5 lakhs, the fee payable shall not exceed ₹ 1,000	

(As per amendment If return is filed after due date and the total income is under Rs 5,00,000 then late filing fee will be Rs. 1000 and if total income exceeds Rs. 5,00,000 the late filing fee will be Rs. 5,000.)

Question 36

(1) **State whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income-tax Act, 1961 for A.Y. 2018-19:**

- (i) **Mr. A makes cash payment to a hotel Radisson Blu, Ahmedabad of ₹ 50,000 against the bill raised by the hotel.**
- (ii) **Mr. Abhishek, in a single transaction, makes contract of ₹ 1,20,000 for sale/purchase of securities (other than shares) as defined in section 2(h)**

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of the Securities Contracts (Regulation) Act, 1956.

(iii) Payment to Mutual Funds of ₹ 70,000 for purchase of its units.

Your answers must be supported with reasons. (PYP 3 Marks, May'18)

(2) Briefly mention the concept of self-assessment tax u/s 140A of the Income-tax Act, 1961 and its components. (PYP 2 Marks, May'18)

Answer 36

(1) Requirement of quoting PAN in respect of certain transactions [Rule 114B of Income-tax Rules, 1962]

(i) PAN not required to be quoted: Mr. A is not required to quote his PAN while making payment ₹ 50,000 in cash to a hotel Radisson Blu, Ahmedabad, since such payment does not exceed ₹ 50,000.

(ii) PAN is mandatorily required to be quoted: Mr. Abhishek is required to quote his PAN while making contract of ₹ 1,20,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, since amount of the transaction exceeds ₹ 1,00,000.

(iii) PAN is required to be quoted: PAN has to be mandatorily quoted while making payment of ₹ 70,000 to Mutual Funds for purchase of its units, since such payment exceeds ₹ 50,000.

(2) Concept of self-assessment tax under section 140A

Where any tax is payable on the basis of any return required to be furnished under, inter alia, section 139, after taking into account -

(i) the amount of tax, already paid, under any provision of the Income-tax Act, 1961

(ii) 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.

The return shall be accompanied by the proof of payment of such tax, interest and fee. 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.

Question 37

Mr. Kailash, a resident and ordinarily resident in India, could not file his return of Income for the assessment year 2021-22 before due date prescribed under section 139(1). Advise Mr. Kailash as a tax consultant.

What are the consequences for non-filing of return of Income within the due date under section 139(1)? (PYP 4 Marks Dec '21)(MTP 4 Marks Oct '23)

Answer 37

Consequences for non-filing return of income within the due date under section 139(1) **Interest under section 234A**

Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

However, no interest u/s 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.

Fee under section 234F

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Late fee of

- ₹ 5,000 would be payable under section 234F, if the return of income is not filed before the due date specified in section 139(1) and
 - ₹ 10,000 would be the fee payable under section 234F where the return is furnished after 31st December, 2021.
- However, such fee cannot exceed ₹ 1,000, if the total income does not exceed ₹ 5,00,000.

Carry forward and set-off of certain losses not permissible

Following losses would not be allowed to be carried forward, where a return of income is not furnished within the time allowed under section 139(1):

- business loss, speculation business loss, loss from specified business,
- loss under the head "Capital Gains"; and
- loss from the activity of owning and maintaining race horses.

Question 38

Due to some inconsistent information provided in the return of income furnished under Section 139(1), the Assessing Officer considers it defective under Section 139(9) of the Income-tax Act, 1961.

- (i) **How, the Assessing Officer would deal with the issue?**
- (ii) **What are the consequences if defect is not rectified within the time allowed?**

Specify the remedies available if not rectified within time allowed by the Assessing Officer? (PYP 4 Marks May'22)

Answer 38

Second Alternative

- (i) Where the Assessing Officer considers that the return of income furnished by the assessee is defective,
 - he may intimate the defect to the assessee and
 - give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation.

The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee.
- (ii) If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
- (iii) The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

Question 39

What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished. (PYP 4 Marks May'23)

Answer 39

Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

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Circumstances in which updated return cannot be furnished

No updated return can be furnished by any person for the relevant assessment year, where

- (a) an updated return has been furnished by him for the relevant assessment year
- (b) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case;
- (c) he is such person or belongs to such class of persons, as may be notified by the CBDT.
- (d) an updated return is a loss return
- (e) the updated return has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return
- (f) the updated return results in refund or increases the refund due on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return.

Note – Any three of the above circumstances can be mentioned.

Question 40

Briefly mention the provisions of Income-tax Act, 1961 with regard to quoting Aadhar Number under section 139AA of the Act. (MTP 4 Marks, May'20, Oct'19 & Aug '18, MTP 4 Marks Sep '23)

Answer 40

Provisions of Income-tax Act, 1961 relating to quoting of Aadhar Number under section 139AA

Every person who is eligible to obtain Aadhar Number is required to mandatorily quote Aadhar Number, on or after 1st July, 2017:

- (c) in the application form for allotment of Permanent Account Number (PAN)
- (d) in the return of income

The provisions of section 139AA relating to quoting of Aadhar Number would, however, not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

- (v) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (vi) a non-resident as per Income-tax Act, 1961;
- (vii) of the age of 80 years or more at any time during the previous year;
- (viii) not a citizen of India.

If a person does not have Aadhar Number, he is required to quote Enrolment ID of Aadhar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him. Every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhar Number, shall intimate his Aadhar Number to prescribed authority on or before a date as may be notified by the Central Government.

(As per amendment if a person fails to intimate the Aadhar Number, PAN allotted to such person should be made inoperative after the notified date.)

Question 41

Mr. Praveen, due to inadvertent reasons, failed to file his income-tax return for the assessment year 2021-22 on or before the due date of filing such return of income.

- (iii) **Can he file the above return after due date of filing return of income? If yes, which is the last date for filing the above return?**
- (iv) **What are the consequences of non-filing the return within the due date under section 139(1)? (RTP Nov '21 & Nov '19)**

Answer 41

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If any person fails to furnish a return within the time allowed to him under section 139(1), he may furnish the belated return for any previous year at any time -

- (iii) before the end of the relevant assessment year; or
- (iv) before the completion of the assessment, whichever is earlier. **(As per amendment before 31st December of the relevant Assessment Year)**

The last date for filing return of income for A.Y.2021-22, therefore, is 31st March 2022. Thereafter, Mr. Praveen cannot furnish a belated return after this date.

Consequences for non-filing return of Income within the due date under section 139(1)

Carry forward and set-off of certain losses: Business loss, speculation business loss, loss from specified business under section 35AD, loss under the head "Capital Gains"; and loss from the activity of owning and maintaining race horses, would not be allowed to be carried forward for set-off against income of subsequent years, where a return of income is not furnished within the time allowed under section 139(1).

Interest under section 234A: Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1)

till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

Fee under section 234F: Fee of Rs. 5,000 would be payable under section 234F, if the return of income is not filed on or before the due date specified in section 139(1) but filed on or before 31st December of the assessment year and Rs. 10,000 would be the fee payable under section 234F where the return is furnished after 31st December of the assessment year. However, such fee cannot exceed Rs. 1,000, if the total income does not exceed Rs. 5,00,000.

(As per amendment If return is filed after due date and the total income is under Rs 5,00,000 then late filing fee will be Rs. 1000 and if total income exceeds Rs. 5,00,000 the late filing fee will be Rs. 5,000.

Question 42

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (iv) **Belated return filed under section 139(4).**
- (v) **Return already revised once under section 139(5).**
- (vi) **Return of loss filed under section 139(3).**

(PYP 4 Marks May '22)

Answer 42

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (iv) A belated return filed under section 139(4) can be revised.
- (v) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (vi) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

Question 43

iv. What is the fee for default in furnishing return of income u/s 234F?

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Paper 3 - Taxation

v. To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply? (PYP 2 Marks ,May '19)

Answer 43

(iii) Fee for default in furnishing return of income u/s 234F

(As per amendment If return is filed after due date and the total income is under Rs 5,00,000 then late filing fee will be Rs. 1000 and if total income exceeds Rs. 5,00,000 the late filing fee will be Rs. 5,000.)

(iv) Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply

The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India.

Section - B

Question 1

State with reasons whether you agree or disagree with the following statements:

- (a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.**
- (b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ` 160 lakhs (` 100 lakhs received in cash) for the year ended 31.03.2024 whether or not declaring presumptive income under section 44AD, is 31st October, 2024.**

Answer 1

(a) Disagree

The return of income of LLP should be verified by a designated partner. Any other partner can verify the Return of Income of LLP only in the following cases:-

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) where there is no designated partner.

(b) Disagree

In case Mr. A offers his business income as per the presumptive taxation provisions of section 44AD (` 11.60 lakhs or more), then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2024, shall be 31st July, 2024.

In case, Mr. A wants to declare business income lower than ` 11.60 lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds ` 1 crore, in which case, the due date for filing return would be 31st October, 2024.

Question 2

Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2024 for A.Y 2024-25 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2024, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would

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Paper 3 - Taxation

your answer be different if he discovered this omission on 21- 03-2025?

Answer 2

Since Mr. Vineet has income only under the heads “Salaries”, “Income from house property” and “Income from other sources”, he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2024-25 under section 139(1), in his case, is 31st July, 2024. Since Mr. Vineet had submitted his return only on 12.9.2024, the said return is a belated return under section 139(4). As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2024, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2024.

However, he cannot revise return had he discovered this omission only on 21- 03-2025, since it is beyond 31.12.2024.

Question 3

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (i) **The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.**
- (ii) **Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.**

Answer 3

(i) True: Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

(ii) False: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

Question 4

Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

Answer 4

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein; the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2), in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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Paper 3 - Taxation

- loss under the head "Capital Gains" to be carried forward under section 74(1); and
 - loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)
- However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

Question 5

Mr. Aakash has undertaken certain transactions during the F.Y.2023-24, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents -

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2023-24 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

Answer 5

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2023-24 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2023-24.
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid in cash exceeds ₹ 50,000
3.	Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000
5.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

Question 6 ILLUSTRATION

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Paper 3 - Taxation

Paras aged 55 years is a resident of India. During the F.Y. 2023-24, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

Answer 6

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 3,00,000 under default tax regime u/s 115BAC and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2024-25).

computation of total income of Mr. Paras for A.Y. 2024-25

Particulars	Amount
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000	NIL
[Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction under Chapter VI-A (not available under the default tax regime under section 115BAC)	-
Total Income	33,000

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered. Since the total income of Mr. Paras for A.Y. 2024-25, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for A.Y. 2024-25.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.

Question 7 ILLUSTRATION

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3).

Answer 7

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Paper 3 - Taxation

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (i) A belated return filed under section 139(4) can be revised.
- (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

Question 8 ILLUSTRATION

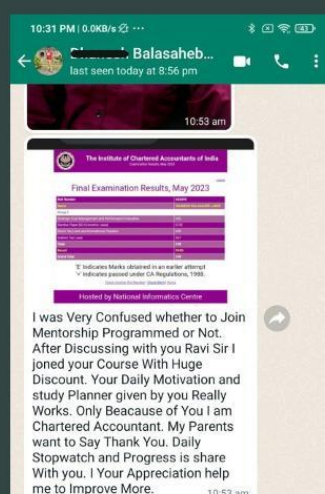
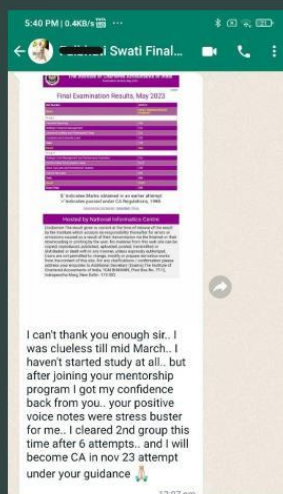
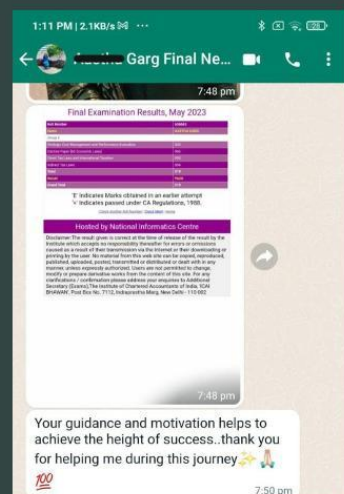
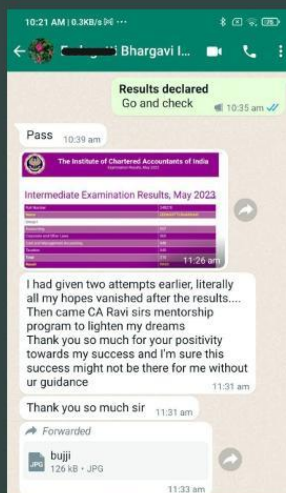
Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2024 audited under section 44AB. Her total income for the A.Y. 2024-25 is ₹ 6,35,000. She wants to furnish her return of income for A.Y. 2024-25 through a tax return preparer. Can she do so?

Answer 8

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2024-25 through a Tax Return Preparer.

Paper 3 - Taxation

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Paper 3 - Taxation

Chapter 9

Computation of total income and tax payable

Attempt wise Distribution

Attempts	May'18	Nov'18	May'19	Nov'19	Nov'20	Jan'21	Jul'21	Dec'21	May'22	Nov'22	May'23	Nov'23
MCQ												
MTP											Q2	Q1
RTP					Q3							
Q & A												
MTP	Q18, Q34	Q19, Q20, Q32, Q33	Q21, Q22, Q30, Q31	Q23	Q29		Q24, Q25, Q28	Q26, Q27, Q36	Q17, Q35	Q15, Q37, Q38	Q14, Q16, Q39	Q13
PYP					Q4, Q47	Q6		Q1, Q50	Q5, Q48	Q49	Q2, Q3, Q51	
RTP	Q40	Q12	Q43	Q41	Q11		Q10	Q42		Q9	Q8, Q4, Q45	Q7, Q46

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Ms. Rimjhim (aged 32 years), an interior decorator, has professional receipts of ₹ 25,60,000 for the previous year 2020-21. She also earned ₹ 1,25,000 as dividend and ₹ 4,65,000 as interest income on fixed deposits. She incurred expenses of ₹ 13,00,000 for her profession and ₹ 30,000 as interest on loan for making investment in shares on which she received dividend. What would be her total income for the A.Y. 2021-22, assuming that she wishes to make maximum tax savings without getting her books of account audited?
- (a) ₹ 18,45,000
 (b) ₹ 18,70,000
 (c) ₹ 18,40,000
 (d) ₹ 18,25,000
- (RTP May'21 , MTP 2 Marks Oct '23)

Ans: (a)

2. Mr. C, aged 35 years, is a working partner in M/s BCD, a partnership firm, with equal profit sharing ratio. During the P.Y. 2022-23, the firm has paid remuneration to Mr. B, Mr. C and Mr. D, being the working partners of the firm, of ₹ 2,00,000 each. The firm has paid interest on capital of ₹ 1,20,000 in toto to all the three partners and the same is within the prescribed limit of 12%. The firm had a loss of ₹ 1,12,000 after debiting remuneration and interest on capital. Note – Remuneration and interest on capital is authorized by the partnership deed. You, being the CA of Mr. C, are in the process of computing his total income. What would be his taxable remuneration from the firm?
- (a) ₹ 2,00,000

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- (b) ₹ 1,51,600
 (c) ₹ 1,27,600
 (d) ₹ 1,50,000 (MTP 2 Marks March '23)

Ans: (c)

3. Mr. Hari is 65 years old residing in Agra. During F.Y. 2013-14, he purchased a house property in Kamla Nagar for ₹ 25 lacs. This house property was self-occupied by him till F.Y. 2015-16. In F.Y. 2016-17, he shifted to Delhi and the house property in Kamla Nagar was let out to Mr. Kishore. His income from house property was ₹ 5 lacs per annum (computed). During F.Y. 2018-19, Mr. Hari earned long-term capital gain of ₹ 2.50 lacs, casual income of ₹ 10 lacs, agricultural income of ₹ 3 lacs and profits from business of ₹ 4 lacs. During the same year, he transferred house property situated in Kamla Nagar to Mrs. Neelam (his son's wife) without any consideration. Subsequently, income from house property was received by Mrs. Neelam for F.Y. 2018-19. Compute gross total income of Mr. Hari for A.Y. 2019-20:

- (a) ₹ 16.50 lacs
 (b) ₹ 21.50 lacs
 (c) ₹ 19.50 lacs
 (d) ₹ 24.50 lacs (RTP May '20)

Ans: (b)

Question & Answers**Question 1**

Mr. Ravi, a resident and ordinarily resident in India, owns a let out house property having different flats in Kanpur which has municipal value of ₹ 27,00,000 and standard rent of ₹ 29,80,000. Market rent of similar property is ₹ 30,00,000. Annual rent was ₹ 40,00,000 which includes ₹ 10,00,000 pertaining to different amenities provided in the building. One flat in the property (annual rent is ₹ 2,40,000) remains vacant for 4 months during the previous year. He has incurred following expenses in respect of aforesaid property:

Municipal taxes of ₹ 4,00,000 for the financial year 2020-21 (10% rebate is obtained for payment before due date). Arrears of municipal tax of financial year 2019 -20 paid during the year of ₹ 1,40,000 which includes interest on arrears of ₹ 25,000.

Lift maintenance expenses of ₹ 2,40,000 which includes a payment of ₹ 30,000 which is made in cash.

Salary of ₹ 88,000 paid to staff for collecting house rent and other charges.

Compute the total income of Mr. Ravi for the assessment year 2021-22 assuming that Mr. Ravi has not opted for the provisions under section 115BAC. (6 Marks Dec '21)

Answer 1

Computation of total income of Mr. Ravi for A.Y. 2021-22 under the regular provisions of the Act

Particulars	Amount (₹)	Amount (₹)
Income from house property		

Paper 3 - Taxation

Gross Annual Value			
- Expected rent ₹ 29,80,000 [Higher of Municipal Value of ₹ 27,00,000 p.a. and Fair Rent of ₹ 30,00,000 p.a., but restricted to Standard Rent of ₹ 29,80,000 p.a.]			
- Actual rent ₹ 29,40,000 [₹ 30,00,000, being annual rent for house property less rent of ₹ 60,000 (₹ 2,40,000 x 4/12 x 3/4) due to vacancy]		29,40,00	
Gross Annual Value		0	
In this case, the actual rent is lower than the expected rent due to vacancy. Otherwise, the actual rent of ₹ 30,00,000 would have been higher than the expected rent. In such a case, the actual rent would be the gross annual value, even if it is lower than the expected rent.			
Less: Municipal taxes actually paid during the year: [₹ 4,00,000 – rebate of ₹ 40,000] = ₹ 3,60,000			
[₹ 1,40,000 arrears – ₹ 25,000 interest] = ₹ 1,15,000		4,75,000	
Net Annual Value		24,65,00	
		0	
Less: Deduction from Net Annual Value			17,25,500
30% of Net Annual Value		7,39,500	
Income from Other Sources/Profits and gains from business or profession			
Rent for amenities		10,00,00	
		0	
Less: Loss due to vacancy [₹ 2,40,000 x 4/12 x 1/4]		20,000	
Less: Expenditure in respect thereof		9,80,000	
- Lift maintenance expenses [excluding cash payment of ₹ 30,000 disallowed] = ₹ 2,40,000 – ₹ 30,000	2,10,000		
- Salary to staff [₹ 88,000 x 1/4, being the proportion pertaining to amenities]	22,000	2,32,00	7,48,000
		0	
Total Income			24,73,500

Question 2

Mr. Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March, 2023 is as under:

Expenditure		Amount (₹)	Income		Amount (₹)
To	Employees' Remuneration	15,00,000	By	Gross Receipts from Profession (last year ₹ 75,00,000) (No TDS was deducted from any of the receipts)	60,60,000

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To	Office & Administrative Expenses	5,00,000	By	Interest on Savings Bank Account	25,000
To	Rates and Taxes	15,000	By	Winnings from Lottery (Net of cost of lottery tickets of ₹ 500)	99,500
To	Interest Expenses	80,000	By	Rent Received	2,40,000
To	Office Rent	2,40,000			
To	Insurance Premium	72,000			
To	Professional Fees	2,00,000			
To	Depreciation on Computers	1,20,000			

The Suggested Answers for Paper 4A: Income-tax Law are based on the provisions of Income tax Act as amended by the Finance Act, 2022 which are relevant for May, 2023 Examination. The relevant assessment year is A.Y.2023-24.

To Excess of Income over Expenditure	36,97,500			
	64,24,500			64,24,500

The following details relates to F.Y. 2022-23:

- (i) **Employees' Remuneration includes a sum of ₹ 3,00,000 paid to his wife, Mrs. Beena who is working as a manager in his office. She does not have any technical or professional qualification or experience required for the job. The payment of salary was as per market rates in comparison to similar work profile.**
- (ii) **Mr. Bhasin owns a big house with 2 independent units. Unit - 1 (with 50% floor area) has been let out for residential purposes at a monthly rent of ₹ 20,000 for the entire year. Unit - 2 (with the balance 50% of the floor area) is used by Mr. Bhasin as his residencecum-office. Other particulars of the house are:
Municipal Valuation - ₹ 3,60,000 p.a.
Fair Rent - ₹ 4,20,000 p.a.
Standard Rent under Rent Control Act - ₹ 4,00,000 p.a.**
- (iii) **Rates and taxes include a sum of ₹ 10,000 paid as municipal taxes of the house.**
- (iv) **Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The construction was completed in F.Y.2010-11. Neither the loan nor the interest was paid till the due date of filing the return of income.**
- (v) **Based on the actual rent received for Unit-1, Mr. Bhasin has debited ₹ 2,40,000 as notional rent for Unit-2 which is used for his profession.**
- (vi) **The expense on insurance premium of ₹ 72,000 represents lump-sum health insurance premium paid by Mr. Bhasin for 3 years effective from 1st July, 2022 to 30th June, 2025 for himself, his spouse and two dependent children. The said insurance premium was paid through account payee cheque.**
- (vii) **The expenses on professional fees paid includes a sum of ₹ 1,00,000 paid to Mr. Raunak, an Indian resident on which no tax was deducted at source.**

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Paper 3 - Taxation

(viii) There was only one block containing computers which came into existence only on 2nd April, 2022 when new laptops (for ₹ 1,60,000), printers and scanners (for ₹ 40,000) were purchased. He charged depreciation @ 60% in the entire cost of ₹ 2,00,000 and debited the amount to Income & Expenditure A/c.

(ix) Mr. Bhasin has also taken a loan of ₹ 5,00,000 from a nationalised bank for higher education of his son. During F.Y.2022-23, he repaid principal of ₹ 75,000 along with interest of ₹ 40,000. This amount is not reflected in Income and Expenditure Account.

You are required to compute the total income under proper heads of income of Mr. Bhasin for A.Y. 2023-24 under regular provisions of Income-tax Act 1961, assuming that he has not opted to pay tax under section 115BAC. Also calculate the total tax payable by him. (PYP 14 Marks May '23)

Answer 2

Computation of total income and tax payable by Mr. Bhasin for A.Y. 2023-24

	Particulars	₹	₹	₹
I	Income from Salaries Salary of Mrs. Beena [Remuneration paid by Mr. Bhasin to his wife Mrs. Beena who is employed as a manager in his office would be included in his hands, since Mrs. Beena does not have any technical or professional qualification or experience required for the job]		3,00,000	
	Less: Standard deduction u/s 16(ia)		<u>50,000</u>	2,50,000
II	Income from house property Let out portion (Unit 1 – 50% area) Gross Annual Value [Higher of expected rent of ₹ 2,00,000 and actual rent of ₹ 2,40,000 (₹ 20,000 x 12)] [Expected rent is higher of municipal value of ₹ 1,80,000 (3,60,000 x 50%) and fair rent of ₹ 2,10,000 (₹ 4,20,000 x 50%), restricted to standard rent of ₹ 2,00,000 (₹ 4,00,000 x 50%)]	2,40,000		
	Less: Municipal taxes paid for let out portion (₹ 10,000 x 50%)	<u>5,000</u>		
	Net Annual Value (NAV)	2,35,000		
	Less: Deduction under section 24 (a) 30% of NAV	70,500		
	(b) Interest on capital borrowed for construction of house relating to let out portion (80,000 x 50%) (allowed on accrual basis)	<u>40,000</u>		
	Income from let out portion Self-occupied (Unit 2 – 25%) [Since Unit 2 representing 50% of the floor area is used for residence as well as business purpose, it is assumed that it is equally used for residence and business purpose]		1,24,500	

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	Gross Annual Value	Nil		
	Less: Municipal taxes [not allowed for selfoccupied property]	Nil		
	Net Annual Value	Nil		
	Less: Deduction under section 24(b) Interest on loan for construction of house, ₹ 80,000 x 50% x 1/2 (allowable on accrual basis)	20,000		
	Loss from self-occupied portion		(20,000)	
	[Loss from self-occupied portion can be set off against income from let out portion]			1,04,500
III	Profits and gains from business and profession			
	Excess of income over expenditure			
	Add: Expenses debited to Income & Expenditure A/c but not allowable as deduction		36,97,500	
	Remuneration paid to his wife Mrs. Beena [As per section 40A(2) remuneration paid to Mrs. Beena is allowed, since it is as per market rates]	-		
	Municipal taxes attributable to let out and selfoccupied portions not allowable [₹ 10,000 x 75%]	7,500		
	Interest on capital borrowed for construction of house attributable to let out and selfoccupied portion not allowable [₹ 80,000 x 75%]	60,000		
	Interest on capital borrowed from bank for construction of house attributable to business portion i.e., 25% of ₹ 80,000 [not allowable, since it is not paid on or before due date of filing return of income by virtue of section 43B]	20,000		
	Notional rent for Unit 2 used for business or profession [not allowable under section 30, since Mr. Bhasin himself is the owner of the property]	2,40,000		
	Insurance premium [Personal expenditure not allowable]	72,000		
	Professional fees to Mr. Raunak without 30,000 deducting TDS [₹ 1,00,000 x 30%] [Mr. Bhasin is required to deduct TDS on professional fees payment to Mr. Raunak since his gross receipts from profession exceeds ₹ 50 lakhs during the P.Y. 2021-22. 30% of the sum paid to Mr. Raunak, resident without deducting tax to be disallowed in P.Y. 2022-23]	30,000		
	Depreciation as per books	1,20,000	5,49,500	
			42,47,000	

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	Less: Income credited to Income & Expenditure A/c but not taxable as business income Interest on savings bank account [taxable under the head "Income from other sources"]	25,000		
	Winnings from lottery [taxable under the head "Income from other sources"]	99,500		
	Rent received [taxable under the head "Income from house property"]	2,40,000	3,64,500 38,82,500	
	Less: Depreciation allowable [2,00,000 (₹1,60,000, being new laptops + ₹ 40,000, being printers) x 40%, i.e., 64,000+16,000 as it was put to use for more than 180 days in the P.Y. 2022-23. Printers and scanners for ₹ 40,000 are eligible for higher depreciation of 40%]		80,000	38,02,500
IV	Income from Other Sources Interest on savings bank account		25,000	
	Winnings from Lottery [No expenditure or allowance is allowed from lottery income]		1,00,000 ¹	
				1,25,000
	Gross Total Income			42,82,000
	Less: Deduction under Chapter VI-A Deduction under section 80D Medical insurance premium [₹ 72,000 x 1/4, being the previous years in which insurance would be in force] [allowable for self, spouse and dependent children]		18,000	
	Deduction under section 80E Interest on loan taken from a nationalised bank for higher education of son		40,000	
	Deduction under section 80TTA			
	Interest on saving bank account to the extent of		10,000	68,000
	Total Income			42,14,000
	Tax Payable On lottery income [30% of ₹ 1,00,000]		30,000	
	On other income of ₹ 41,14,000 Upto ₹ 2,50,000	Nil		
	₹ 2,50,000 @5% [₹ 2,50,000 – ₹ 5,00,000]	12,500		
	₹ 5,00,000 @20% [₹ 5,00,000 – ₹ 10,00,000]	1,00,000		
	₹ 31,14,000 @30% [₹ 10,00,000 – ₹ 41,14,000]	9,34,200		
			10,46,700	
				10,76,700

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Paper 3 - Taxation

	Less: HEC@4%		43,068
	Tax liability		11,19,768
	Less: TDS on lottery winnings @30% u/s 194B		30,000
	Tax payable		10,89,768
	Tax payable (rounded off)		10,89,770

Question 3

Mr. Muktesh born on 14.1960 furnished his original return for Assessment Year 2020-21 on 30.07.2020. He has shown salary income of ₹ 7.30 lakhs (computed) and interest from his savings bank of ₹ 12,700 and from his fixed deposits of ₹ 43,000. He also claimed deduction under section 80C of ₹ 1.50 lakhs. He had claimed deduction u/s 80D of ₹ 25,000. He also claimed deduction u/s 80TTA of ₹ 10,000. His employer had deducted TDS of ₹ 33,950 from his salary, which he adjusted fully against tax payable. He paid health insurance premium of ₹ 38,000 by account payee cheque for self and wife. He paid ₹ 1,500 in cash for his health check-up and ₹ 4,000 by cheque for preventive health check-up of his parents. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 80 years, staying with his younger brother. He further incurred medical expenditure of ₹ 25,000 on his father, aged 81 years, who is staying with him. His father is not covered under any Mediclaim policy. He seeks your advice about possibility of revising his return and if possible file his revised return. Analyze the above narrated facts as per applicable provisions of the Income-tax Act, 1961. Does he need to revise his return and for what reasons? Please advise him suitably and if needed, re-compute his income and tax payable or refund due for the Assessment Year 2020-21. (PYP 9 Marks, Nov'20)

Answer 3

Computation of total income of Mr. Muktesh for A.Y.2020-21 [As per the original return filed by him]

	Particulars	₹	₹
(I)	Salaries (Computed)		7,30,000
(ii)	Income from Other Sources		
	Interest on savings bank account	12,700	
	Interest on fixed deposits	43,000	55,700
			7,85,700
	Less: Deductions under Chapter VI-A		
(I)	Deduction u/s 80C	1,50,000	
(ii)	Deduction u/s 80D	25,000	
(iii)	Deduction u/s 80TTA	10,000	1,85,000
	Total Income		6,00,700

Computation of tax liability of Mr. Muktesh for A.Y.2020-21 (As per original return)

	₹
Tax on total income [20% of ₹ 1,00,700 (i.e., ₹ 6,00,700 – ₹ 5,00,000) + ₹ 12,500]	32,640
Add: HEC@4%	1,306
Tax payable on total income	33,946

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Paper 3 - Taxation

Tax payable on total income (rounded off)	33,950
Less: Tax deducted at source u/s 192	33,950
Tax Payable	Nil

Need for filing revised return – Analysis Computation of Total Income of Mr. Muktesh for the A.Y. 2020-21 [As per the Revised Return]

Since Mr. Muktesh's birthday falls on 1.4.2020, he would be treated as having completed 60 years of age in the P.Y.2019-20, and hence, he would be eligible for the benefit of higher deduction u/s 80D, higher deduction of up-to ₹ 50,000 u/s 80TTB (instead of ₹ 10,000 u/s 80TTA) while computing his total income as well as for higher basic exemption limit of ₹ 3,00,000 in the P.Y.2019-10 itself while computing his tax liability. Also, he would be entitled to deduction in respect of medical insurance premium paid to insure the health of his mother and medical expenses incurred on his father who is not covered under any Medclaim policy. Accordingly, having discovered such omissions in the original return, he has to file his revised return of income u/s 139(5) on or before 31.3.2021 **(As per amendment from AY 2021-22 onwards a belated/revised return can be filed by 31st December of the relevant assessment year)**

to avail these benefits which he has not availed while filing his original return of income. The computation of total income and tax liability (refund due) as per the revised return are worked out hereunder -

	Particulars	₹	₹
(I)	Salaries (Computed)		7,30,000
(ii)	Income from Other Sources		
	Interest on savings bank account	12,700	
	Interest on fixed deposits	43,000	
	Gross Total Income		55,700
			7,85,700
	Less: Deductions under Chapter VI-A		
(I)	Deduction u/s 80C	1,50,000	
(ii)	Deduction u/s 80D		
	Medical insurance premium for self and spouse	38,000	
	Preventive health check-up for self (allowable even if paid in cash)	1,500	
	Fully allowed as it is within the overall limit of ₹ 50,000 for family	39,500	
	Medical insurance premium for mother	33,000	
	Medical expenditure for father not covered under any policy	25,000	
	Preventive health check-up for parents (₹ 4,000, restricted to ₹ 3,500, being ₹ 5,000 – ₹ 1,500 claimed for self and spouse)	3,500	

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Paper 3 - Taxation

		61,500			
	Restricted to maximum of ₹ 50,000 for parents		50,000	89,500	
(iii)	Deduction u/s 80TTB				
	Interest on savings bank account	12,700			
	Interest on fixed deposits	43,000			
		55,700			
	Restricted to maximum of ₹ 50,000			50,000	
					2,89,500
Total Income					4,96,200

Computation of tax liability of Mr. Muktesh for A.Y.2020-21 [As per the Revised Return]

	₹
Tax on total income [5% of ₹1,96,200 (i.e., ₹4,96,200 – ₹ 3,00,000 basic exemption limit)]	9,810
Less: Rebate u/s 87A (Since his total income does not exceed ₹ 5 lakh) – ₹ 12,500 or tax on total income, whichever is lower	9,810
Tax payable on total income	Nil
Less: Tax deducted at source u/s 192	33,950
Refund due	33,950

Therefore, Mr. Muktesh has to file a revised return showing the above revised computation of total income and tax liability on or before 31.3.2021 **(As per amendment from AY 2021-22 it is 31st December of the relevant AY)** to claim the enhanced deductions which he had not claimed in the original return and get refund of the entire income-tax of ₹ 33,950 deducted at source by his employer.

Question 4

From the following particulars furnished by Mr. Suresh, aged 53 years, a resident Indian for the previous year ended March 31, 2022, you are requested to compute his total income and tax payable for the Assessment Year 2022-23. (Assuming he does not opt for the Section 115BAC):

- (i) **He sold his vacant land on 09.12.2021 for ₹ 15 lakhs. The Stamp Duty Value (SDV) of land at the time of transfer was ₹ 19 lakhs. The fair market value of the land as on 1st April, 2001 was ₹ 6 lakhs (SDV is ₹ 5,00,000). This land was acquired by him on 05.08.1996 for ₹ 3.40 lakhs. He had incurred registration expenses of ₹ 15,000 at that time. The cost of inflation index for the year 2021-22 and 2001-02 are 317 and 100, respectively.**
- (ii) **He owns an industrial undertaking established in a Special Economic Zone (SEZ) and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹ 300 lakhs, which includes ₹ 120 lakhs from export turnover. This industrial undertaking fulfils all the conditions of Section 10AA of the Income-tax Act, 1961. Profit from this industrial undertaking is ₹ 30 lakhs.**
- (iii) **He has income of ₹ 10,000 from crossword puzzles and ₹ 15,000 gross interest from bank fixed deposit.**
- (iv) **Tuition fees of ₹ 36,000 for his three children to a school. The fees being ₹ 12,000 p.a. per child. (PYP 6 Marks May'22)**

Answer 4

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Paper 3 - Taxation

Computation of Total Income and Tax Payable by Mr. Suresh for A.Y. 2022 -23

Particulars	Amount (₹)	Amount (₹)
Profits and gains from business or profession		
Profit from SEZ undertaking		30,00,000
Capital Gains		
Long term capital gain on sale of vacant land [since land held for a period of more than 24 months, it is long-term capital asset]		
As per section 50C, Full value of consideration would be stamp duty value since it exceeds 110% of actual sale consideration	19,00,000	
Less: Indexed cost of acquisition [$\text{₹ } 5,00,000 \times \frac{317}{100}$]	15,85,000	
Cost of acquisition, being higher of - Actual cost (₹ 3,40,000 + ₹ 15,000) – lower of FMV of ₹ 6,00,000 and stamp duty value of ₹ 5,00,000 as on 1.4.2001	₹ 3,55,000 ₹ 5,00,000	3,15,000
Income from other sources		
Income from crossword puzzles	10,000	
Interest on fixed deposit	15,000	
		25,000
Gross Total Income		33,40,000
Less: Deductions under Chapter VI-A		
Under section 80C – Tuition fees of two children		24,000
Less: Deduction under section 10AA (₹ 30,00,000 x 120 lakhs/300 lakhs) x 100 %, being 3rd year of operation		12,00,000
Total Income		21,16,000
Computation of Tax payable on total income under the regular provisions of the Income-tax Act, 1961		
Tax on LTCG @ 20% of ₹ 3,15,000		63,000
Tax on income from crossword puzzles @30% of ₹ 10,000		3,000
Tax on remaining amount of ₹ 17,91,000 [$\text{₹ } 2,37,300 \text{ (30\% of ₹ } 7,91,000) + \text{₹ } 1,12,500$]		3,49,800
		4,15,800
Add: Health and education cess @4%		16,632
Tax Payable under the regular provisions of the Act		4,32,432
Tax Payable under the regular provisions of the Act (rounded off)		4,32,430

Computation of Adjusted Total Income and Alternate Minimum Tax (AMT) payable

Particulars	Amount (₹)
Total Income computed under the regular provisions of the Act	21,16,000
Add: Deduction u/s 10AA	12,00,000
Adjusted Total Income	33,16,000
Since Adjusted Total Income exceeds ₹ 20 lakhs, the provisions of Alternate Minimum Tax (AMT) are attracted in this case	
Alternate Minimum Tax@18.5%	6,13,460

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Add: Health and Education cess@4%	24,538
AMT	6,37,998
AMT (rounded off)	6,38,000
<p>Since the regular income-tax payable is less than the AMT payable, the adjusted total income of ₹ 33,16,000 shall be deemed as the total income and tax is leviable@18.5% thereof plus cess@4%. Therefore, his tax liability would be ₹ 6,38,000.</p> <p>However, he would be entitled to AMT credit of ₹ 2,05,570 (₹ 6,38,000 – ₹4,32,430)</p>	

Question 5

Mrs. Nisha, a resident individual aged 54 years, is carrying on business of manufacturing of textile fabrics, as a proprietor. The turnover in the previous year 2020-21 was ₹ 250 lakhs and in the current previous year 2021-22, it is ₹ 600 lakhs. The net profit as per the profit and loss account as on 31-03-2022 is ₹ 5,61,000. She provides the following additional information those were not considered while making the profit and loss account for the previous year 2021-22.

(i) Depreciation has not been debited to profit and loss account. The details of the plant & machinery employed in the business are given as under:

Date	PARTICULARS	AMOUNT
01-04-2021	Opening written down value of machinery used for manufacturing purpose	4,75,000
03-07-2021	New machinery purchased during the year, payment made by an account pay cheque.	7,25,000
10-03-2022	Sold one of the old machine	75,000

She does not have any other fixed assets employed in the business.

- (ii) Received subsidy of 20% on new machine purchased on 03-07-2021 during the previous year under technology upgradation fund Scheme from the Central Government.
- (iii) She paid a job charges for the value addition on the fabrics ₹ 90,000 without deduction of tax to job worker by an account payee cheque.
- (iv) Commission paid to one agent allowed as deduction in earlier assessment year amounting ₹ 50,000, has now been received back during previous year 2021-22, from the agent due to settlement with commission agent.
- (v) ₹ 25,000 paid to creditor for goods in cash.
- (vi) Incurred loss of ₹ 1,17,500 from an eligible transaction carried out in respect of trading in derivatives in a recognised stock exchange.
- (vii) Interest received amounting ₹ 2,00,000, duly authorised by partnership deed of M/s Ramji textiles @ 15% p.a. on the capital employed. She is sleeping partner in the Ramji textiles.
- (viii) She Received ₹ 60,000 by pre-mature withdrawals from deposit including interest ₹ 5,000, in post office time deposit, eligible for deduction under Section 80C.
- (ix) She sold her gold bracelet (jewellery), used by her for personal purposes, on 01-05-2021 for ₹ 5,00,000, which was acquired for ₹ 40,000 on 01-03-2005. A diamond was embedded onto bracelet on 01-05-2007 of ₹ 50,000. (cost inflation index 2004-05:113, 2007-08:129 and 2021-22:317)
- (x) She received a gold coin (bullion) worth ₹ 55,000 (FMV) from her cousin (daughter of uncle) during the previous year 2021-22.
- (xi) She incurred long term loss from sale of share of the Indian company. (The

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Paper 3 - Taxation

STT is paid on the sale and purchase of the shares) ₹ 75,000.

- (xii) **She deposited a sum of ₹ 50,000 with life insurance Corporation of India every year for the maintenance of her mother aged 70 years depended upon him and suffering from severe disability.**
- (xiii) **She purchased the new residential house during the previous year and paid stamp duty and registration fee ₹ 1,55,000 to get transfer the property in her name.**

You are required to compute the total income and tax payable by Mrs. Nisha for the assessment year 2022-23. (Ignore the provisions of Section 115BAC). Give brief note wherever necessary. (PYP 14 Marks May'22)

Answer 5

Computation of total income of Mrs. Nisha for A.Y. 2022-23

	Particulars	₹	₹	₹
I.	Income from business or profession			
	Net Profit as per profit and loss account		5,61,000	
	Add: Items not credited but taxable while computing business income			
	- Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2021-22 Mrs. Nisha received back such amount due to settlement, the same would be deemed as her income]	50,000		
	- Interest on capital from partnership firm [₹2,00,000/15% x 12%] [Since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest@12% p.a. would be allowed as deduction in the hands of firm under section 40(b). Consequently, interest @ 12% p.a. would be the business income of Mrs. Nisha under section 28. For allowability of interest in the hands of the firm, there is no requirement that the partner should be a working partner]	1,60,000		
			2,10,000	
			7,71,000	
	Less: Items not debited but allowable while computing business income			
	- Job charges without deduction of tax [₹ 90,000 – 30% of ₹ 90,000] [Mrs. Nisha's turnover for the P.Y. 2020-21 exceeds ₹ 1 crore, hence, she is liable to deduct tax at source u/s 194C on Job charges of ₹ 90,000. Since Mrs. Nisha has not deducted tax at source on ₹ 90,000, 30% would be disallowed under section 40(a)(ia). Remaining job charges paid would be allowable as deduction while computing business income	63,000		
	- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure, since such amount exceeds ₹ 10,000 and paid in cash by virtue of section 40A(3)]	-		
		63,000		

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Paper 3 - Taxation

		7,08,000		
	Less: Depreciation as per Income-tax Rules			
	Opening WDV of machinery	4,75,000		
	Add: Purchase of machinery for ₹ 7,25,000 during the P.Y. 2021-22 by A/c payee cheque. Subsidy of ₹ 1,45,000, being 20% of cost, received from Central Government on new machinery is to be reduced from actual cost(₹7,25,000 - ₹ 1,45,000).	5,80,000		
		10,55,000		
	Less: Sale proceeds	75,000		
	WDV as on 31.3.2022 before depreciation for P.Y. 2021-22	9,80,000		
	depreciation @ 15% on 9,80,000	1,47,000		
	Additional Depreciation@20% on ₹ 5,80,000	1,16,000		
	(As new machinery is used in manufacturing business and put to use for more than 180 days in the P.Y. 2021-22, depreciation and additional depreciation will be allowed in full)		2,63,000	
			4,45,000	
	Less: Loss from eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange is not a speculative business and hence, the same is allowed to be set off from textile business income as per section 70.		1,17,500	
				3,27,500
II	Capital Gains			
	Long term capital gain on sale of gold bracelet since it is held for more than 36 months	5,00,000		
	Sales consideration			
	Less: Cost of acquisition (40,000 x 317/113)	1,12,212		
	Less: Cost of improvement (50,000 x 317/129)	1,22,868		
	Long- term capital gain on sale of gold bracelet		2,64,920	
	Note - In the additional information (xiii), it is mentioned that Mrs. Nisha has purchased a new residential house during the previous year. In such a case, she would be eligible for exemption u/s 54F in respect of amount invested in purchase of new residential house from long term capital gain on sale of gold bracelet. However, the cost of new residential house is not provided in the Question but only stamp duty and registration fee is given which would also be the part of cost of house. In such case exemption u/s 54F would be ₹ 2,64,920 x 1,55,000/5,00,000 = ₹ 82,125. Accordingly, long term capital gain would be			

Paper 3 - Taxation

	₹ 1,07,795 (instead of ₹ 1,89,920). In such a case, Rebate u/s 87A would be ₹ 5,060 (instead of ₹ 12,500) and tax liability of Mrs. Nisha would be Nil (instead of ₹ 9,340).			
	Less: Long term capital loss from sale of STT paid shares of an Indian company allowed to be set off from long term capital gain on sale of gold bracelet as per section 70.		75,000	
				1,89,920
iii	Income from Other Sources			
	Fair market value of gold coin received from cousin [Taxable u/s 56(2)(x), since cousin is not a relative and the fair market value exceeds ₹ 50,000]		55,000	
	Pre-mature withdrawal from post office time deposit [Amount including interest received on pre-mature withdrawal from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Nisha]		60,000	1,15,000
	Gross Total Income			6,32,420
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C			
	Stamp duty and registration fee of ₹ 1,55,000 for the purpose of transfer of house property, restricted to		1,50,000	
	Deduction under section 80DD			
	Sum deposited with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction ₹1,25,000 in case of severe disability irrespective of amount deposited with LIC]		1,25,000	
				2,75,000
	Total Income			3,57,420

Computation of tax liability of Mrs. Nisha for A.Y.2022-23

Particulars	₹
Tax on long-term capital gains @20% on ₹ 1,07,420 [₹ 1,89,920 – ₹ 82,500, being unexhausted basic exemption limit (₹ 2,50,000 – ₹1,67,500)]	21,484
Tax on other income of ₹ 1,67,500 [₹ 3,57,420 – ₹ 1,89,920, being LTCG], being lower than the basic exemption limit	Nil
	21,484
Less: Rebate u/s 87A [Tax payable or ₹12,500, whichever is less]	12,500
	8,984
Add: Health and education cess@4%	359
Tax liability	9,343
Tax liability (rounded off)	9,340

Note - The last two lines in the first para of the Question reads as follows–

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Paper 3 - Taxation

“The net profit as per the profit and loss account as on 31.3.2022 is ₹ 5,61,000. **She provides the following additional information those were not considered while making the profit and loss account for the previous year 2021-22**”

Items (i) to (xiii) are listed thereunder.

On a plain reading of the above sentences, it appears that none of the expenditures/receipts in

(i) to (xiii) were considered while making the profit and loss account. The above solution has been prepared accordingly.

Alternatively, it is possible to interpret the last sentence (**bold underlined above**) to mean that as far as items (iii) and (v) are concerned, wherein disallowance of expenditure is attracted u/s 40(a)(ia) and 40A(3), respectively, such disallowances (and not the expenditure itself) were not considered while making the profit and loss account of the previous year 2021 -22. If so interpreted, then, for item (iii), instead of reducing ₹ 63,000, ₹ 27,000 has to be added back. Likewise for item (v), ₹ 25,000 has to be added back. In such a case, profits and gains from business and profession, Gross Total Income, Total Income and Tax Payable would change accordingly. An alternate solution based on this interpretation has been worked out as follows:

Alternate solution

Computation of total income of Mrs. Nisha for A.Y. 2022-23

	Particulars	₹	₹	₹
I.	Income from business or profession		5,61,000	
	Net Profit as per profit and loss account			
	Add: Items not credited but taxable while computing business income			
	- Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2021-22 Mrs. Nisha received back such amount due to settlement, the same would be deemed as her income]	50,000		
	- Interest on capital from partnership firm [₹ 2,00,000/15% x 12%] [Since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest@12% p.a. would be allowed as deduction in the hands of firm under section 40(b). Consequently, interest @ 12% p.a. would be the business income of Mrs. Nisha under section 28. For allowability of interest in the hands of the firm, there is no requirement that the partner should be a working partner]	1,60,000		
			2,10,000	
			7,71,000	
	Add: Disallowances not considered while computing business income			
	- Job charges without deduction of tax [30% of ₹ 90,000] [Mrs. Nisha's turnover for the P.Y. 2020-21 exceeds ₹ 1 crore, hence, she is liable to deduct tax at source u/s	27,000		

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	194C on Job charges of ₹ 90,000. Since Mrs. Nisha has not deducted tax at source on ₹ 90,000, 30% would be disallowed under section 40(a)(ia).			
	- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure, since such amount exceeds ₹ 10,000 and paid in cash as per section 40A(3)]	25,000		
			52,000	
			8,23,000	
	Less: Depreciation as per Income-tax Rules			
	Opening WDV of machinery	4,75,000		
	Add: Purchase of machinery for ₹ 7,25,000 during the P.Y. 2021-22 by A/c payee cheque. Subsidy of ₹ 1,45,000, being 20% of cost, received from Central Government on new machinery is to be reduced from actual cost (₹ 7,25,000 - ₹ 1,45,000).	5,80,000		
		10,55,000		
	Less: Sale proceeds	75,000		
	WDV as on 31.3.2022 before depreciation for P.Y. 2021-22	10,55,000		
	Less: Sale proceeds	75,000		
	WDV as on 31.3.2022 before depreciation for P.Y. 2021-22	9,80,000		
	Depreciation @15% on ₹ 9,80,000		1,47,000	
	Additional Depreciation@20% on ₹ 5,80,000		1,16,000	
	(As new machinery is used in manufacturing business and put to use for more than 180 days in the P.Y.2021-22, depreciation and additional depreciation will be allowed in full)		2,63,000	
			5,60,000	
	Less: Loss from eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange is not a speculative business and hence, the same is allowed to be set off from textile business income as per section 70.		1,17,500	

Paper 3 - Taxation

				4,42,500
II	Capital Gains			
	Long term capital gain on sale of gold bracelet since it is held for more than 36 months Sales consideration	5,00,000		
		1,12,212		
	Less: Cost of acquisition (40,000 x 317/113)	1,22,868		
	Less: Cost of improvement (50,000 x 317/129)	5,00,000		
	Less: Cost of acquisition (40,000 x 317/113)	1,12,212		
	Less: Cost of improvement (50,000 x 317/129)	1,22,868		
	Long- term capital gain on sale of gold bracelet		2,64,920	
	Note – In the additional information (xiii), it is mentioned that Mrs. Nisha has purchased a new residential house during the previous year. In such a case, she would be eligible for exemption u/s 54F in respect of amount invested in purchase of new residential house from long term capital gain on sale of gold bracelet. However, the cost of new residential house is not provided in the <u>Question</u> but only stamp duty and registration fee is given which would also be the part of cost of house. In such case, exemption u/s 54F would be ₹2,64,920 x 1,55,000/5,00,000 = ₹ 82,125. Accordingly, long term capital gain would be ₹1,07,795 (instead of ₹ 1,89,920). In such a case, Rebate u/s 87A would remain as ₹12,500 and tax liability of Mrs. Nisha would be ₹ 11,111, before rounding off (instead of ₹ 28,193).			
	Less: Long term capital loss from sale of STT paid shares of an Indian company allowed to be set off from long term capital gain on sale of gold bracelet as per section 70		75,000	
				1,89,920
III	Income from Other Sources			
	Fair market value of gold coin received from cousin [Taxable u/s 56(2)(x), since cousin is not a relative and the fair market value exceeds ₹ 50,000]		55,000	
	Pre-mature withdrawal from post office time deposit [Amount including interest received on pre- mature withdrawn from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Nisha		60,000	1,15,000
	Gross Total Income			7,47,420
	Less: Deduction under Chapter VI-A			

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Paper 3 - Taxation

	Deduction under section 80C		
	Stamp duty and registration fee of ₹ 1,55,000 for the purpose of transfer of house property, restricted to		1,50,000
	Deduction under section 80DD		
	Sum deposited with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction ₹1,25,000 in case of severe disability irrespective of amount deposited with LIC]		1,25,000
	Total Income		2,75,000
			4,72,420

Computation of tax payable by Mrs. Nisha for A.Y.2022-23

Particulars	₹
Tax on long-term capital gains @20% on ₹1,89,920	37,984
Tax on other income of ₹ 2,82,500 [₹ 4,72,420 – ₹ 1,89,920, being LTCG] – 5% of ₹ 32,500 (₹ 2,82,500 – basic exemption limit ₹ 2,50,000)	1,625
	39,609
Less: Rebate u/s 87A [Tax payable or ₹ 12,500, whichever is less]	12,500
	27,109
Add: Health and education cess@4%	1,084
Tax Payable	28,193
Tax Payable (rounded off)	28,190

Question 6

- (b) During the previous year 2019-20, following transactions took place in respect of Mr. Raghav who is 56 years old.
- (c) Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under -

	House 1 Self-occupied	House 2 Let-out
Rent received per month	Not applicable	₹ 60,000
Municipal taxes paid	₹ 7,500	Nil
Interest on loan (taken for purchase of property)	₹ 3,50,000	₹ 5,00,000
Principal repayment of loan (taken from HDFC bank)	₹ 2,00,000	₹ 3,00,000

- (d) Mr. Raghav had a house in Delhi. During financial year 2010-11, he had transferred the house to Ms. Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Ms. Vamika during the previous year 2019-20 from such house property is ₹ 5,50,000.
- (e) Mr. Raghav receives following income from M/s M Pvt. Ltd. during P.Y. 2019-20:
- (i) Interest on Debentures of ₹ 7,50,000; and

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Paper 3 - Taxation

- (ii) Salary of ₹ 3,75,000. He does not possess the adequate professional qualification commensurate with the salary received by him.
Shareholding of M/s M Pvt. Ltd. as on 31.3.2020 is as under -
- | | Equity shares | Preference shares |
|--|---------------|-------------------|
| Mr. Raghav | Nil | Nil |
| Mrs. Raghav | 2% | 25% |
| Mr. Jai Kashan
(brother of Mrs. Raghav) | 98% | 75% |
- (f) Mr. and Mrs. Raghav forms a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of ₹ 1 crore to such firm. Firm had no income or expense other than the interest of ₹ 9,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.
- (g) Mr. Raghav holds preference shares in M/s K Pvt. Ltd. He instructed the company to pay dividends to Ms. Geetanshi, daughter of his servant. The transfer is irrevocable for the life time of Geetanshi. Dividend received by Ms. Geetanshi during the previous year 2019-20 is ₹ 13,00,000.
- (h) Other income of Mr. Raghav includes
- (i) Interest from saving bank account of ₹ 2,00,000
- (j) Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the Assessment Year 2020-21.
(PYP 8 Marks, Jan'21)

Answer 6

Computation of Total Income of Mr. Raghav for A.Y. 2020-21

Particulars	Amount (₹)	Amount (₹)
Salary		Nil
[Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M/s M Pvt. Ltd., they have a substantial interest in the company. Since Mr. Raghav is working in the same company without any professional qualifications commensurate with his salary, the salary of ₹ 3,75,000 received by him would be included in the hands of Mrs. Raghav.]		
Income from house property		
House 1 [Self-occupied]		
Net annual value		-
Less: Interest on loan [up to ₹2,00,000]	2,00,000	(2,00,000)
House 2 [Let out]		
Gross annual value ⁷ [₹60,000 x 12]	7,20,000	
Less: Municipal taxes		-
Net annual value	7,20,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	2,16,000	
(b) Interest on loan	5,00,000	4,000
House in Delhi [Since Mr. Raghav receives direct or		

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Paper 3 - Taxation

indirect benefit from income arising to his sister's daughter ,		
Ms. Vamika, from the transfer of house to her without		
consideration, such income is to be included in the total		
income of Mr. Raghav as per proviso to section 62(1), even		
though the transfer may not be revocable during lifetime of		
Ms. Vomica's]		
Gross Annual Value	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,65,000	
(b) Interest on loan	-	3,85,000
		1,89,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		
Income from other sources		
Dividend on preference shares exceeding ₹ 10,00,000 taxable	3,00,000	
	13,00,000	
under section 115BBDA [Taxable in the hands of Mr. Raghav		
as per section 60, since he transferred the income, i.e.,		
dividend, without transferring the asset, i.e., preference shares]		
(As per amendment dividend is fully taxable in the hands of the shareholder)		
Interest on debentures	7,50,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable, since sum of money exceeding		
₹ 50,000 is received from his niece, who is not a relative		
as per section 56(2)]	75,000	23,25,000
Gross Total Income		25,14,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C [Principal repayment of	1,50,000	
loan ₹ 5 lakh, restricted to ₹ 1,50,000]		
Deduction under section 80TTA [Interest from		
savings bank account]	10,000	1,60,000
Total Income		23,54,000

Paper 3 - Taxation

7 Rent receivable has been taken as the gross annual value in the absence of other information

8 Rent receivable has been taken as the gross annual value in the absence of other information

Question 7

AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @15% p.a. on their capital contribution of ₹ 15 lakhs each and remuneration of ₹ 50,000 p.m. to Anand and ₹ 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2023, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

		₹
(i)	Current year revenue expenditure on scientific research	2,40,000
(ii)	Unabsorbed capital expenditure on scientific research relating to P.Y. 2019-20	85,000
(iii)	Brought forward business loss of A.Y. 2014-15	40,000
(iv)	Unabsorbed depreciation of A.Y. 2011-12	52,000
(v)	Current year depreciation under section 32	4,70,000
(vi)	Brought forward business loss of A.Y. 2018-19	49,000
(vii)	Current year capital expenditure on scientific research	3,45,000

You are required to compute the total income of AB Light LLP for A.Y. 2023 -24 after considering the above items. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem. (RTP Nov '23)

Answer 7

Computation of total income of AB Light LLP for the A.Y. 2023-24

Particulars		Amount (₹)
Net profit as per profit and loss account before interest on capital and remuneration to partners and other items		25,86,000
Less: Expenditure allowable from business income		
- Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 15,00,000 × 12% x 2)	3,60,000	
- Current year revenue expenditure on scientific research under section 35(1)(i)	2,40,000	6,00,000
- Current year depreciation under section 32(1)	4,70,000	19,86,000
- Current year capital expenditure on scientific research under section 35(1)(iv)	3,45,000	
- Unabsorbed depreciation of A.Y. 2011-12 under section 32(2)	52,000	
- Unabsorbed capital expenditure on scientific research relating to P.Y.	85,000	9,52,000

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Paper 3 - Taxation

2019-20 under section 35(4)		
Book Profit		10,34,000
Less: Partners' remuneration allowable under section 40(b)		
(i) As per limit prescribed in section 40(b)		
On first ₹ 3,00,000 90%	2,70,000	
On the balance ₹ 7,34,000 60%	4,40,400	
(ii) Remuneration actually paid or payable [₹ 50,000 x 12 + ₹ 40,000 x 12]	7,10,400	
	10,80,000	
(i) or (ii) whichever is less, is deductible		7,10,400
Profit from manufacturing business		3,23,600
Less: Brought forward business loss of A.Y. 2014-15 [Not allowed to set off since 8 years have been already expired]	-	
Less: Brought forward business loss of A.Y. 2018-19	49,000	49,000
Profits and gains of business or profession		2,74,600

Remuneration taxable in the hands of Mr. Anand as business income = ₹
 $7,10,400 \times 6,00,000 / 10,80,000 = ₹ 3,94,667$

Remuneration taxable in the hands of Mr. Bheem as business income = ₹
 $7,10,400 \times 4,80,000 / 10,80,000 = ₹ 3,15,733$

Question 8

Mr. Suresh has a sole proprietary manufacturing unit. On 1st April, 2022, he owns Plant A and Plant B (rate of depreciation 15%). Depreciated value of the block on 1st April, 2022 is ₹ 10,00,000. Plant B is transferred on 15th October, 2022 for ₹ 19,00,000. Expenditure on transfer of Plant B is ₹ 20,000. Plant C (rate of depreciation 15%) is purchased on 10th March, 2023 for ₹ 22,00,000. However, Plant C is put to use on 2nd September, 2023 Business income of Mr. Suresh before claiming any depreciation is ₹ 11,00,000.

On 1st March, 2023, Mr. Suresh transfers 900 equity shares in A Ltd. (unlisted) for ₹ 23,50,000. Mr. Suresh does not own any residential house property. These shares were purchased on 2nd April, 2015 for ₹ 2,00,000. To avail of the benefit of exemption under different sections, he made the following investments on 1st May, 2023.

- (i) **A residential house property at Kolkata: ₹ 19,00,000 (out of which stamp duty expenditure is ₹ 30,000).**
- (ii) **NHAI bonds: ₹ 3,00,000.**

Find out the gross total income of Mr. Suresh for the A.Y. 2023-24. CII – F.Y. 2022-23: 331; F.Y. 2015-16:254(RTP May '23)

Answer 8

Computation of gross total income of Mr. Suresh for the A.Y. 2023-24

Particulars	Amount (₹)	Amount (₹)
Profits and gains of business or profession		11,00,000
Business income before depreciation		
Depreciated value of the block on April 1, 2022	10,00,000	

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Paper 3 - Taxation

Add: "Actual cost" of Plant C acquired on March 10, 2023	22,00,000	
Less: Sale Consideration of Plant B	19,00,000	
Written down value on March 31, 2023	13,00,000	
Normal depreciation (not available as Plant C is not put to use during the P.Y. 2022-23)	Nil	
Additional depreciation (not available as Plant C is not put to use during the P.Y. 2022-23)	Nil	
Capital Gains		
Long term capital gain on transfer of unlisted equity shares [Since shares were held for more than 24 months]		
Sale consideration	23,50,000	
Less: Indexed Cost of Acquisition [2,00,000 x 331/254]	2,60,630	
Less: Exemption under section 54EC	Nil	20,89,370
[Deduction under section 54EC is allowable only in respect of long term capital gain on transfer of land and building]		
Exemption under section 54F [20,89,370 x 19,00,000/23,50,000]	16,89,278	16,89,278
		4,00,092
Gross Total Income		15,00,092

Question 9

Mr. Kamal, having business of manufacturing of consumer items and other products, gives the following Trading and Profit & Loss Account for the year ended 31.03.2022:

Trading and Profit & Loss Account

Particulars	₹	Particulars	₹
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross profit	43,86,000		
	2,40,00,000		2,40,00,000
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
Goods and Services tax demand paid	1,62,525		
Miscellaneous expenses	7,88,475		
Net profit of the year	50,85,000		
	66,66,000		66,66,000

Following are the further information relating to the financial year 2021 -22:

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Paper 3 - Taxation

- (i) **Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.**
- (ii) **Bonus to staff includes an amount of ₹ 7,500 relating to P.Y. 2020-21, paid in the month of December 2021.**
- (iii) **Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.**
- (iv) **Miscellaneous expenses include:**
- (a) **amount of ₹ 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,**
- (b) **amount of ₹ 1,00,000 paid to Political Party by cheque.**
- (v) **Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.**
- (vi) **Mr. Kamal had purchased a warehouse building of ₹ 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2021 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".**
- (vii) **Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000.**
- (x) **Interest on loans includes an amount of ₹ 80,000 paid to Mr. X, a resident, on which tax was not deducted.**

Compute the total income and tax liability of Mr. Kamal for the A.Y. 2022-23 in a most beneficial manner. (RTP Nov'22)

Answer 9

Computation of total income of Mr. Kamal for the A.Y.2022-23

Particulars		₹
Net profit as per profit and loss account		50,85,000
Less:	Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources"	30,000
Add:	Expenses either not allowable or to be considered separately but charged in the profit & loss account	50,55,000
	- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 2)	2,500
	- Payment made to political party by cheque (See Note 4)	1,00,000
	- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 5)	5,300
	- Depreciation as per books	1,07,250
	- 30% of interest paid on loan paid to Mr. X, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
		52,94,050
Less:	Depreciation allowable as per Income-tax Act, 1961	65,000
		52,29,050
Less:	Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately	22,50,000
Income from business (other than specified business)		29,79,050
Computation of income/ loss from specified business		
Income from specified business		₹ 22,50,000
Less: Deduction under section 35AD @ 100% of ₹ 20 lakhs (See Note 6)		₹ 20,00,000
Income from specified business		2,50,000
Profits and gains from business or profession		32,29,050

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Paper 3 - Taxation

Income from Other Sources		
Interest on income-tax refund		4,570
Gross Total Income		32,33,620
Less:	Deduction under section 80GGC	
	Contribution to Political Party (See Note 4)	1,00,000
Total Income		31,33,620

Notes –

- Bonus for the previous year 2020-21 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2020 -21. However, when the same has been paid in December 2021, it should be allowed as deduction in the P.Y.2021-22 (A.Y.2022-23). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- The penalty of ₹ 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.

Computation of tax liability of Mr. Kamal for A.Y. 2022-23 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 31,33,620		
Upto ₹ 2,50,000		Nil
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 31,33,620 [@30% of ₹ 21,33,620]	6,40,08	7,52,586
Add: Health and education cess@4%	6	30,103
Total tax liability		7,82,689
Total tax liability (rounded off)		7,82,690

Computation of adjusted total income and AMT of Mr. Kamal for A.Y. 2022-23

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		31,33,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [₹ 20 lakhs x 10%]	(2,00,000)	18,00,000
Adjusted Total Income		49,33,620
Alternative Minimum Tax@18.5%		9,12,720
Add: Health and education cess@4%		36,509
Total tax liability		9,49,229
Total tax liability (rounded off)		9,49,230

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus cess@4%. Therefore, liability as per section 115JC is ₹ 9,49,230.

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Paper 3 - Taxation

Computation of total income of Mr. Kamal as per section 115BAC for A.Y. 2022-23

Particulars	₹	₹
Gross Total Income as per regular provisions of the Income-tax Act		32,33,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation on building [₹ 20 lakhs x 10%]	(2,00,000)	18,00,000
Gross Total Income/Total Income as per section 115BAC		50,33,620
[No deduction under Chapter VI-A allowable]		

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 50,33,620		
Upto ₹ 2,50,000 ₹ 3,00,000 Nil		Nil
₹ ₹ 3,00,000 – ₹ 6,00,000 [₹ 3,00,000 @ 5%]	15,000	
₹ 6,00,001 – ₹ 9,00,000 [₹ 3,00,000 @ 10%]	30,000	
₹ 9,00,001 – ₹ 12,00,000 [₹ 3,00,000 @ 15%]	45,000	
₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%]	60,000	
Above ₹ 15,00,000 @30%	10,60,086	12,10,086
Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		1,21,008
		13,31,094
Less: Marginal relief (See computation below)		97,474
		12,33,620
Add: Health and education cess@4%		49,345
Total tax liability		12,82,965
Total tax liability (Rounded off)		12,82,970

Computation of marginal relief

Particulars	₹
(A) Tax payable including surcharge on total income of ₹ 50,33,620 as per section 115BAC	13,31,094
(B) Tax payable on total income of ₹ 50 lakhs as per section 115BAC	12,00,000
(C) Excess tax payable (A-B)	1,31,094
(D) Marginal relief (₹ 1,31,094 – ₹ 33,620, being the amount of income in excess of ₹ 50 lakhs)	97,474

Notes:

- (1) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) An individual exercising option u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

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Paper 3 - Taxation

Since the tax liability of Mr. Kamal under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him not to opt for section 115BAC for

A.Y. 2022-23. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

AMT credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	9,49,230
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,82,690
	1,66,540

Question 10

Compute total income and tax liability thereon of Mr. Raghav for the A.Y. 2021-22 from the following details:

Mr. Raghav (aged, 61 years) working in a private company from last 10 years. His salary details for the financial year 2020-21 are:

- | | |
|---|---------------|
| (i) Basic Salary | 1,70,000 p.m. |
| (ii) Dearness Allowance (forms part of retirement benefits) | 80,000 p.m. |
| (iii) Commission | 32,000 p.m. |
| (iv) Transport Allowance | 5,000 p.m. |
| (v) Medical Reimbursement | 40,000 |

Mr. Raghav resigned from the services on 30th November, 2020 after completing 10 years and 5 months of service. He was paid gratuity of ₹ 25 lakhs on his retirement. He is not covered under the Payment of Gratuity Act, 1972. He started business of hiring of goods vehicle, purchased 4 small goods vehicle on 10th December, 2020 and 4 heavy vehicles having gross weight of 20 MTs each on 1st January, 2021. He did not maintain books of accounts for the business of hiring of goods vehicle. Mr. Shivpal, his very close friend gifted him ₹ 2 lakhs to purchase the vehicles.

He was holding 30% equity shares in TSP (P) Ltd., an Indian company. The paid up share capital of company as on 31st March, 2020 was ₹ 20 lakh divided into 2 lakh shares of

₹ 10 each which were issued at a premium of ₹ 30 each. Company allotted shares to shareholders on 1st October, 2013.

He sold all these shares on 30th April, 2020 for ₹ 60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Raghav has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.1.2018 was ₹ 50 per share.

On 12.2.2021, interest of fixed deposits of ₹ 92,500 credited to his SBI Bank. On 30.4.2020,

₹ 5,500 and on 30.12.2020, ₹ 8,500 credited to interest on saving bank A/c with SBI Bank.

He deposited ₹ 1,10,000 in PPF A/c. He paid insurance premium of ₹ 20,000 on his life policy during the financial year 2020-21. The policy was taken in April 2011 and sum assured was ₹ 3,00,000. He also made payment of ₹ 25,000 towards L.I.C. pension fund and premium of ₹ 40,000 towards mediclaim policy for self and ₹ 20,000 for his wife. All the payment he made by A/c payee cheque.

There was no change in salary of Mr. Raghav from last two years. He does not opt to pay tax as per section 115BAC. (RTP May 21)

Cost inflation Index is:

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Paper 3 - Taxation

Financial Year	Cost Inflation Index
2013-14	220
2020-21	301

Answer 10

Computation of Total Income of Mr. Raghav for the A.Y.2021-22

Particulars		₹	₹
Salaries			
Basic Salary = 1,70,000 x 8		13,60,000	
Dearness Allowance = 80,000 x 8		6,40,000	
Commission = 32,000 x 8		2,56,000	
Transport Allowance = 5,000 x 8		40,000	
Medical reimbursement [Fully taxable]		40,000	
Gratuity – Amount received		25,00,000	
Less: Least of the following exempt u/s 10(10)			
(i) Actual Gratuity received ₹ 25,00,000			
(ii) ½ month's salary for every year of completed service [½ x 2,50,000 (Basic salary plus DA) + x 10] = ₹ 12,50,000			
(iii) Notified limit of ₹ 20,00,000			
Least of the above is exempt		12,50,000	
Gross Salary		35,86,000	
Less: Standard deduction u/s 16(ia) [Actual salary or ₹ 50,000, whichever is less]		50,000	
Net Salary			35,36,000
Profits and gains of business or profession			
Income from business of hiring goods vehicle			
Other than heavy goods vehicles = 4 x (₹ 7,500 p.m.) x (4 months)		1,20,000	
Heavy goods vehicles = 4 x (20 MTs x ₹ 1,000 per MT) x (3 months)		2,40,000	
Capital Gains			3,60,000
On transfer of 60,000 shares (2,00,000 x 30%)			
Sales consideration [60,000 x ₹ 60 per share]		36,00,000	
Less: Cost of acquisition, higher of –		30,00,000	
- Actual cost [60,000 x ₹ 40 per share]		24,00,000	
- Lower of			
• FMV on 31.1.2018 [60,000 x 50]		30,00,000	
• Actual sales consideration [60,000 x 60]		36,00,000	
Long-term capital gains u/s 112A (since shares are held for a period of more than 12 months before transfer)			6,00,000
Income from Other Sources			
Gift from friend taxable u/s 56(2)(x) since the same exceeds ₹ 50,000. It is fully taxable		2,00,000	

Paper 3 - Taxation

Interest on Saving A/c with SBI Bank		14,000
Interest on Fixed deposits with SBI Bank [Since interest is credited after deduction of at source @ 7.5%, as the amount of interest exceeds ₹ 50,000, amount included in the total income need to be grossed up ($₹ 92,500 \times 100/92.5$)]		1,00,000
		3,14,000
Gross Total Income		48,10,000
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF A/c		1,10,000
Life Insurance premium [fully deductible, since, in respect of a policy taken before 1.4.2012, the actual premium paid (₹ 20,000) or 20% of the sum assured ($₹ 3,00,000 \times 20\% = ₹ 60,000$), whichever is lower, has to be deducted]		20,000
		1,30,000
Section 80CCC		
Payment to LIC Pension Fund		25,000
		1,55,000
Restricted to ₹ 1,50,000, being the maximum allowable deduction		1,50,000
Section 80D		
Medical insurance premium for self and spouse ₹ 60,000, allowable to the extent of ₹ 50,000, since Mr. Raghav is a senior citizen		50,000
Section 80TTB		
Deduction in respect of interest on fixed deposits and saving bank allowable as deduction under section 80TTB, since Mr. Raghav is a senior citizen, to the extent of ₹ 50,000		50,000
Total Income		45,60,000

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

Particulars	₹	₹
Tax on total income of ₹ 45,60,000		
Tax on long-term capital gains of ₹ 6,00,000 arising from transfer of listed shares @10% under section 112A after deducting ₹ 1 lakh.		50,000
Tax on other income of ₹ 39,60,000 [$₹ 45,60,000 - ₹ 6,00,000$ capital gains]		
Upto ₹ 3,00,000		Nil
₹ 3,00,001 – ₹ 5,00,000 [i.e., ₹ 3,00,000@5%]	10,000	
₹ 5,00,001 – ₹ 10,00,000 [i.e., ₹ 5,00,000@20%]	1,00,000	
₹ 10,00,001 – ₹ 39,60,000 [i.e., ₹ 29,60,000@30%]	8,88,000	9,98,000
		10,48,000
Add: Health and Education cess@4%		41,920
Tax liability		10,89,920

Question 11

You are required to compute the total income of the Ms. Radhika, a resident individual, aged 37 years and the tax payable for the assessment year 2019-20.

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Paper 3 - Taxation

She furnishes the following particulars relating to the year ended 31-3-2019:

(i) Winnings from a TV Game show (Net)	77,000
(ii) Gift received from Father's brother	85,000
(iii) Gift received from Archita, her close friend	80,000
(iv) Interest on capital received from TVA & Co., a partnership firm in which she is a partner (@15% p.a.)	4,50,000
(v) Rent received for a vacant plot of land (Net)	3,03,300
(vi) Amount received from Lime Pvt. Ltd., for a house at Delhi for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2018.	2,85,000
(vii) Amount received under Keyman Insurance Policy	4,35,000
(viii) Amount forfeited by her for the vacant plot, since the buyer could not finalize the deal as per agreement.	3,10,000
(ix) Donation given in cash to a charitable trust registered u/s 12AA	22,000
(x) She owns agricultural lands at Dhaka, Bangladesh. She has derived agricultural income therefrom	5,20,000
(xi) Public Provident Fund paid in the name of her minor daughter	1,25,000
(xii) Interest credited in the said PPF account during the year	50,900
(xiii) Share of profits received from TVA & Co., a partnership firm	1,50,000

Computation should be made under proper heads of income. (RTP May '20) (Same concepts different figures PYP 10 Marks Nov'18)

Answer 11

Computation of total income of Ms. Radhika for A.Y. 2019-20

Particulars	₹	₹
Income from house property		
Arrears of rent [Taxable, even if Ms. Radhika is no longer the owner of house property]	2,85,000	
Less: 30% of arrears of rent	85,500	1,99,500
Profits and gains of business or profession		
Interest on capital @12%, being the maximum allowable interest [₹ 4,50,000/15% x 12%] assuming interest@12% is authorized by the partnership deed and has been allowed as deduction while computing the income of the firm	3,60,000	
Share of profit from TVA & Co., a firm [Exempt]	-	
Amount received under Keyman Insurance Policy	4,35,000	7,95,000
Income from other sources		
Winning from a TV Game show (Gross) [₹ 77,000 x 100/(100-30)]	1,10,000	
Gift received from father's brother would be exempt, since father's brother falls within the definition of relative	-	
Gift received from her close friend would be taxable, since it exceeds ₹ 50,000	80,000	
Rent received for a vacant plot of land [₹ 3,03,300/90 x 100]	3,37,000	
Amount forfeited on cancellation of agreement for transfer of vacant plot	3,10,000	
Agricultural income from agricultural land at Dhaka, Bangladesh [not exempt, since such income is derived from land outside India]	5,20,000	
Interest credited in PPF account [Exempt]	-	13,57,000
Gross Total Income		23,51,500
Less: Deductions under Chapter VI-A		

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Paper 3 - Taxation

Section 80C		
PPF subscription in the name of minor daughter	1,25,000	
Section 80G		
Donation of ₹ 22,000 to a charitable trust registered u/s 12AA is not allowable as deduction since the same is made in cash in excess of ₹ 2,000	-	1,25,000
Total Income		22,26,500

Computation of tax liability of Ms. Radhika for A.Y. 2019-20

Particulars	₹	₹
Tax on winnings of ₹ 1,10,000 from TV game show @30%		33,000
Tax on balance income of ₹ 21,16,500		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000@5%	12,500	
₹ 5,00,001 - ₹ 10,00,000@20%	1,00,000	
₹ 10,00,001 - ₹ 21,16,500@30%	3,34,950	4,47,450
		4,80,450
Add: Health and Education cess@4%		19,218
Tax liability		4,99,668
Less: TDS		
Under section 194-I	33,700	
Under section 194B	33,000	66,700
Tax payable		4,32,968
Tax payable (rounded off)		4,32,970

Question 12

You are required to compute the total income and tax liability of Mr. Anoop, a resident individual aged 55 years, for the Assessment Year 2018-19 from the following information shown in his Profit and Loss Account for the year ended 31st March 2018:

- (i) The net profit was ₹ 8,40,000.
- (ii) Depreciation debited in the books of account was ₹ 1,05,000.
- (iii) The following incomes were credited in the Profit & Loss Account :
 - (a) Interest on notified government securities ₹ 32,000
 - (b) Dividend from a foreign company ₹ 28,000.
 - (c) Gold chain worth ₹ 78,000 received as gift from his mother.
- (iv) Interest on loan amounting to ₹ 82,000 was paid in respect of capital of ₹ 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2018.
- (v) General expenses included:
 - (a) An expenditure of ₹ 18,500 which was paid by a bearer cheque.
 - (b) Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.

Additional Information:

- (1) Depreciation allowable as per Income-tax Act, 1961 was ₹ 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].
- (2) He contributed the following amounts by cheque:
 - (a) ₹ 48,000 in Sukanya Samridhi Scheme in the name of his minor daughter Anya.
 - (b) ₹ 23,000 to the Clean Ganga Fund set up by the Central Government.
 - (c) ₹ 28,000 towards premium for health insurance and ₹ 2,500 on account of preventive health check up for self and his wife.
 - (d) ₹ 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father). (RTP Nov 18)

Answer 12

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Paper 3 - Taxation

Computation of total income of Mr. Anoop for the Assessment Year 2018-19

Particulars	₹	₹	₹
Profits and gains from business or profession			
Net profit as per profit and loss account		8,40,000	
Less: Income credited to profit and loss account but not taxable under this head			
Interest on notified government securities	32,000		
Dividend from foreign company	28,000		
Gift of gold chain received from his mother	78,000	1,38,000	
Add: Depreciation debited in the books of account		7,02,000	
		1,05,000	
		8,07,000	
Add: Expenses debited to profit and loss account but not allowable as deduction			
Interest on capital borrowed for purchase of plant & machinery [As per the proviso to section 36(1)(iii), the interest on loan borrowed for purchase of new asset which is not put to use upto 31.3.2018 not allowable as deduction. The said amount has to be added to the cost of the asset ⁴ . Since the amount has been debited to profit and loss account, it has to be added back].	82,000		
Expenditure in excess of ₹ 10,000 paid by bearer cheque to be disallowed as per section 40A(3)	18,500		
Compensation paid to an employee on termination of his services in the business unit is allowable on the grounds of commercial expediency. Hence, no disallowance is attracted	-	1,00,500	
Less: Depreciation allowable under the Income-tax Act, 1961 [Depreciation on new plant & machinery would not be allowed, since it was not put to use during the previous year 2017-18]		9,07,500	7,91,500
Income from Other Sources			
Interest on notified Government Securities, exempt under section 10(15)		-	
Dividend from foreign company [(not exempt under section 10(34))]		28,000	
Gift of gold chain received from his mother is not taxable, since mother is a relative [clause (I) of proviso to section 56(2)(x)]		-	28,000
Gross Total Income			8,19,500
Less: Deductions under Chapter VI-A			
Under section 80C Deposit in Sukanya Samridhi Scheme		48,000	
Under section 80D			

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Paper 3 - Taxation

Medical insurance premium			
Self and wife ₹ 28,000 + ₹ 2,500 preventive health check up, subject to a maximum of	25,000		
Medical expenses of father, being a very senior citizen, ₹ 35,000, since there is no insurance policy in his name, restricted to	30,000	55,000	
Under section 80G			
Donation to Clean Ganga Fund (qualifies for 100% deduction)		23,000	1,26,000
Total Income			6,93,500
Tax on total income @ 5% on ₹ 2,50,000 (₹ 5,00,000 less ₹ 2,50,000, being the basic exemption limit) plus @20% on ₹ 1,93,500 (in excess of ₹ 5,00,000)			51,200
Add: Education cess @2%			1024
Add: Secondary and higher education cess @1%			512
Add: EC & SHEC @4%			2048
Tax Payable			53,248
Tax Payable (rounded off)			53,250

4 No depreciation is allowable on such amount since the asset was not put to use during the P.Y. 2017-18.

Question 13

Mr. Rohit, working as Finance Manager in ABC Ltd., Kanpur, retired from the company on 31.10.2022 at the age of 60. The following amounts were received from the employer from 1st April, 2022 to 31st October, 2022:

Basic Salary ₹ 30,000 p.m.
Dearness Allowance ₹ 20,000 p.m. (40% reckoned for superannuation benefits) Ex-gratia (lump sum) ₹ 65,000

In addition to the above –

- (i) **The company had taken on lease a residential house at Kanpur, paying a lease rent of ₹ 9,000 p.m. Mr. Rohit, who was paying to the company ₹ 6,000 p.m. towards aforesaid rent, vacated the said premises on 31.10.2022.**
- (ii) **The company had also provided to Mr. Rohit a cooking range and microwave oven owned by it. The original cost of these assets was ₹ 40,000 and the written down value as on 1.4.2022 was ₹ 22,000.**
- (iii) **Mr. Rohit has two sons. His second son was studying in a school run by the employer-company throughout the financial year 2022-23. The education facility was provided free of cost. The cost of such education in a similar school is ₹ 1,800 p.m.**
- (iv) **The employer-company was contributing ₹ 7,000 p.m. to Central Government Pension Scheme. Mr. Rohit contributed an equal amount.**
- (v) **Professional tax paid by the employer ₹ 2,400.**
- (vi) **Subsequent to his retirement, Mr. Rohit started his own business on 15.11.2022. The results of the said business from 15.11.2022 to 31.3.2023 were:**
 - A. **Business loss (excluding current depreciation) ₹ 90,000**
 - B. **Current year's depreciation ₹ 60,000**
- (vii) **Mr. Rohit won a prize in a TV game show. He received a sum of ₹ 2,10,000 after deduction of tax at source to the tune of ₹ 90,000.**
- (viii) **Mr. Rohit furnishes the under-mentioned data relating to savings,**

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Paper 3 - Taxation

investments and out-goings:

- A. Life insurance premium, with a private insurance company ₹ 30,000 for his son and ₹ 20,000 for his married daughter.
- B. Medical insurance premium of ₹ 22,000 for himself and ₹ 26,000 for his mother (aged 82), paid by credit card. His mother is however not dependent on him.

You are required to compute the total income of Mr. Rohit (showing clearly the computation under various heads of income) and tax payable by him for the assessment year 2023-24. Assume Mr. Rohit does not opt for the provisions of under section 115BAC. (MTP 14 Marks Sep '23)

Answer 13

Computation of total income of Mr. Rohit for A.Y. 2023-24

Particulars	₹	₹
Basic salary (₹ 30,000 x 7)		2,10,000
Dearness Allowance (₹ 20,000 x 7)		1,40,000
Ex-gratia		65,000
Employers' contribution to Central Government Pension Scheme (₹ 7,000 x 7)		49,000
Professional tax paid by employer		2,400
Concessional accommodation (See Notes 1 & 2)		7,650
Value of furniture (See Note 3)		2,333
Value of concessional educational facility (₹ 1,800 x 7) (See Note 4)		12,600
Gross salary		4,88,983
Less: Standard deduction under section 16(ia)	50,000	
Professional tax under section 16(iii)	2,400	52,400
Net salary		4,36,583
Income from other sources		
Winnings from TV Game Show (₹ 2,10,000 + ₹ 90,000)		3,00,000
Gross Total Income		7,36,583
Less: Deductions under Chapter VI-A		
Deduction under section 80C		
Life insurance premium (₹ 30,000 + ₹ 20,000)		50,000
Deduction under section 80CCD(1) (See Notes 5) Employee's contribution to pension scheme [to be restricted to 10% of salary i.e. 10% of ₹ 2,66,000 (₹ 30,000 + ₹ 8,000) x 7]		26,600
Total deduction under section 80C & 80CCD(1)		76,600
Additional employee's contribution to pension scheme [49,000 - 26,600] [Section 80CCD(1B)]		22,400

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Employer's Contribution to pension scheme (to be restricted to 10% of salary) [Section 80CCD(2)]	26,600	
Deduction under section 80D (See Note 6)		1,73,600
Medical insurance premium (₹ 22,000 + ₹ 26,000)	48,000	
Total Income (See Notes 7 & 8)	0	5,62,983
Total income (rounded off)		5,62,980

Computation of tax payable by Mr. Rohit for the A.Y.
2023-24

Particulars	₹
Tax @ 30% on winnings of ₹ 3,00,000 from game show	90,000
Tax on balance income of ₹ 2,62,980 (The basic exemption limit of ₹ 3,00,000 is applicable since Mr. Rohit is of the age of 60 years during the P.Y. 2022-23)	Nil
	90,000
Add: Health and Education cess @ 4%	3,600
Total Tax Liability	93,600
Less: TDS	90,000
Net Tax Payable	3,600

Notes:

- For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. ₹ 8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be ₹ 3,31,000 [i.e., (₹ 30,000 + ₹ 8,000) x 7 + 65,000].
- In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. ₹ 63,000, being 9,000 x 7] and 15% of salary [i.e., ₹ 49,650, being 15% of ₹ 3,31,000]. This value (i.e. ₹ 49,650) would be reduced by the rent paid by the employee (i.e., ₹ 42,000, being 6,000 x 7).
The value of concessional accommodation is ₹ 7,650 [i.e. ₹ 49,650 – ₹ 42,000].
- The value of furniture owned by employer and provided to the employee is 10% p.a. of actual cost which amounts to ₹ 2,333 [i.e. 10% of 40,000 x 7/12]. Therefore, the value of furnished accommodation will be ₹ 9,983 (₹ 7,650 + ₹ 2,333) provided to the employee.
It is also possible to consider the cooking range and micro-wave oven provided by employer to the employee as a perquisite on account of use of movable assets of the employer by the employee. Even it is so assumed, there would be no change in the answer since in such a case also, the perquisite value is 10% p.a. of actual cost.
- In determining the value of perquisite resulting from the provision of free or

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concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds ₹ 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of ₹ 1,800 per month is taxable as perquisite. In such a case, the value of the perquisite would be ₹ 12,600 (i.e. ₹ 1,800 × 7).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 5,600. The gross salary in that case shall be ₹ 4,81,983 and net salary would be ₹ 4,29,583. The total income and tax liability shall accordingly vary.

- (5) The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD(2) should be restricted to 10% of salary. The employer's contribution to pension scheme would be outside the overall limit of ₹ 1,50,000 stipulated under section 80CCE. Also, the deduction under section 80CCD(1) for the employee's contribution to the pension scheme is restricted to 10% of salary. Salary means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits. The balance ₹ 22,400 (₹49,000 – 26,600) can be claimed as deduction under section 80CCD(1B).
- (6) The deduction for medical insurance premium of ₹ 26,000 paid for mother is allowable in full under section 80D, as the maximum limit is ₹ 50,000, since his mother is a senior citizen. Therefore, the total deduction under section 80D would be ₹ 22,000 (for self) + ₹ 26,000 (for mother) = ₹ 48,000.
- (7) Winnings from TV game show is chargeable at a flat rate of 30% under section 115BB. No loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.
- (8) As per section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head "Profits and gains of business or profession" is a loss and the assessee has income chargeable under the head "Salaries", the assessee shall not be entitled to have such loss set-off against such income. Even depreciation cannot be set-off against salary income. Therefore, both business loss and current depreciation cannot be set-off against salary income.
- (9) Deduction under section 80GG has not been provided in respect of rent paid by Mr. Rohit to his employer. Such deduction can be provided, if it is assumed that all conditions mentioned in section 80GG are satisfied.

Question 14

Mr. Samar, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2023 is as under:

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp.	3,14,000	By Interest on Public Provident Fund (PPF) Account	60,000
To General Expenses	75,000	By Interest on Savings Bank Account	20,000

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To Electricity Expenses	65,000	By Interest on National Savings Certificates VIII Issue (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	59,81,000		59,81,000

The following other information relates to financial year 2022-23:

- (i) The expenses on Employees' Remuneration & Benefits includes:
 - (a) Family Planning expenditure of ₹ 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
 - (b) Payment of salary of ₹ 25,000 per month to sister-in-law of Mr. Samar, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is ₹ 20,000 per month.
- (ii) Amount received by Mr. Samar as Employees' Contribution to EPF for the month of February, 2023 - ₹ 10,000 was deposited after the due date under the relevant Act relating to EPF.
- (iii) Medical Expenses of ₹ 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr. Samar. His father was 72 years old and was not covered by any health insurance policy. The said payment of ₹ 80,000 was made through account payee cheque.
- (iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of ₹ 25,000 paid to Ms. Anjaleen on 5th January, 2023 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) Written down value of the depreciable assets as on 1st April, 2022 were as follows: Professional Books ₹ 90,000

Computers ₹ 35,000

- (vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2022 and was put to use on the same day. The payment was made as under:
 - ₹ 18,000 paid in cash at the time of purchase of new furniture on 31.08.2022.
 - ₹ 19,000 paid by account payee cheque on 05.09.2022 as balance cost of new furniture and
 - ₹ 11,000 paid in cash on 31.08.2022 to the transporter as freight charges for the new furniture.
- (vii) Mr. Samar purchased a car on 02.04.2021 for ₹ 3,35,000 for personal use. However, on 30.04.2022 he brought the said car for use in his profession. The fair market value of the car as on 30.04.2022 was ₹ 2,50,000.
- (viii) Mr. Samar made a contribution of ₹ 1,00,000 in his PPF A/c on 31.01.2023.
- (ix) The Gross Professional Receipts of Mr. Samar for P.Y. 2021-22 was ₹ 52,00,000.

Compute the total income and tax liability of Mr. Samar for A.Y. 2023-24, assuming that he has not opted for payment of tax under section 115BAC. Ignore provisions under section 14A relating to disallowance of expenditure incurred in relation to income not includible in total income. (MTP 14 Marks March '23) (Same concept different figures PYP 14 Marks July'21)

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Paper 3 - Taxation

Answer 14

Computation of total income of Mr. Samar for A.Y. 2023-24

	18BParticulars	₹	₹	₹
20 BI	Income from business or profession			
	Excess of income over expenditure		39,43,000	
	Add: Items debited but not allowable while computing business income			
	- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee / not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	20,000		
	- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of "relative" ¹ for the purpose of section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr. Samar's sister-in-law]	Nil		
	- Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure / not an expenditure incurred for the purpose of business of Mr. Samar. Since the amount is debited to Income and Expenditure	80,000		
	Account, the same has to be added back for computing business income]			
	- Commission to Ms. Anjaleen without deduction of tax at source [Mr. Samar would be liable to deduct tax at source on commission since his gross receipts from profession exceeded ₹ 50 lakhs during F.Y.2021-22. Since commission has been paid without deduction of tax at source, hence 30% of ₹ 25,000, being commission paid without deducting tax at source, would be disallowed under section 40(a)(ia) while computing the business income of A.Y.2023-24]	7,500		2,45,500
	- Depreciation as per books of account	90,000		
	- Purchase of Furniture [not allowable, since it is a capital expenditure]	48,000		
			41,88,500	

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	Add: Employees' Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. Since the amount is not credited to Income and Expenditure Account, the same has to be added for computing business income. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employees contribution to EPF for February 2023 is deposited after the due date under the relevant Act, no deduction would be available]		10,000	
	Less: Depreciation as per Income-tax Rules		41,98,500	
	- On Professional Books [₹ 90,000 x 40%]	36,000		
	- On Computers [₹ 35,000 x 40%]	14,000		
	- On Furniture [₹ 19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an A/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds ₹ 10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, ₹ 18,000 and ₹ 11,000 paid on 31.8.2022 in cash would not be included in the actual cost of furniture]	1,900		
	- On Car [₹ 3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Samar, i.e., ₹ 3,35,000]	50,250	1,02,150	
			40,96,350	
I I	Less: Items of income credited but not taxable or taxable under any other head of income			
	- Interest on Public Provident Fund [Exempt]	60,000		
	- Interest on savings bank account [Taxable under the head "Income from other sources"]	20,000	1,01,000	
	- Interest on National Savings Certificates VIII Issue (3 rd Year) [Taxable under the head "Income from other sources"]	21,000	0	
	Income from Other Sources			39,95,350
	Interest on savings bank account		20,000	

Paper 3 - Taxation

Interest on National Savings Certificates VIII Issue (3 rd Year)		21,000	41,000
Gross Total Income			40,36,350
Less: Deduction under Chapter VI-A Deduction under section 80C	1,00,000		
Contribution to PPF Interest on NSC (3 rd Year) (Reinvested)	21,000	1,21,000	
Deduction under section 80D Medical expenses for the treatment of father [Since Mr. Samar's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of ₹ 50,000]		50,000	
Deduction under section 80TTA Interest on savings bank account to the extent of ₹ 10,000		10,000	1,81,000
Total Income			38,55,350

Computation of tax liability of Mr. Samar for A.Y.2023-24

Particulars	₹	₹
Tax on total income of ₹ 38,55,350		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000[@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 38,55,350 [@30% of ₹ 28,55,350]	8,56,605	
		9,69,105
Add: Health and education cess@4%		38,764
Tax liability		10,07,869
Tax liability (rounded off)		10,07,870

¹ As per section
2(41)

Question 15

Mr. Raj Kumar (aged 65 years) is retired from a Public Sector Undertaking. He resides in Delhi. He provides you the following particulars of his income and certain payments/investments for the previous year 2021-22:

- Pension income of ₹ 8,50,000
- Interest from fixed deposits with SBI of ₹ 3,35,000 (Gross)
- Life insurance premium paid by cheque ₹ 27,500 for insurance of his life. The insurance policy was taken on 10-07-2017 and the sum assured is ₹ 2,40,000.
- Premium of ₹ 37,500 paid by cheque for health insurance of self and his wife, who is also a senior citizen.
- ₹ 3,000 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his father aged 90 years.
- Paid interest of ₹ 8,500 on loan taken from bank for MBA course pursued by his son.
- A sum of ₹ 1,20,000 donated by cheque to an institution approved for the purpose of section 80G for promoting family planning.

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Paper 3 - Taxation

- ₹ 10,000 contributed towards PM CARES Fund by cheque.
Compute the total income of Mr. Raj Kumar for the assessment year 2022-23, assuming he does not opt for section 115BAC. (MTP 6 Marks Sep'22) (Same concept different figures RTP Nov'21)

Answer 15

Computation of total income of Mr. Raj Kumar for A.Y.2022-23

Particulars	₹	₹	₹
Income under the head "Salaries"			
Pension	8,50,000		
Less: Standard deduction u/s 16(ia)			
Lower of ₹ 50,000 or actual salary/pension	50,000		8,00,000
Income from Other Sources			
Interest from bank on fixed deposit (Gross)			3,35,000
Gross Total Income			11,35,000
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
LIC premium of ₹ 27,500 (restricted to 10% of ₹ 2,40,000, being the sum assured, as the policy is taken after 31.3.2012)		24,000	
Deduction under section 80D			
Premium for health insurance for self and his wife paid by cheque, allowed upto ₹ 50,000 since Mr. Raj Kumar is a senior citizen	37,500		
Preventive health check-up for self, ₹ 3,000, and for his father, ₹ 4,500, restricted to ₹ 5,000 (deduction allowed even if the same is paid in cash)	5,000		
		42,500	
Deduction under section 80E			
Interest on loan taken from bank for MBA course pursued by his son		8,500	
Deduction under section 80G			
Donation to PM CARES Fund – 100% allowable		10,000	
Donation to an approved institution for promoting family planning – 100% allowable subject to qualifying limit of ₹ 1,01,000 i.e., 10% of ₹ 10,10,000 being the adjusted total income		1,01,000	
Deduction under section 80TTB			
Interest on fixed deposit with bank allowable as deduction upto ₹ 50,000, since Mr. Raj Kumar is a senior citizen		50,000	
			2,36,000
Total Income			8,99,000

Question 16

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Paper 3 - Taxation

Mr. Sonu, General Manager of Akon Ltd., Delhi, furnishes the following particulars for the financial year 2022-23:

- (i) Salary ₹ 46,000 per month
- (ii) Value of medical facility in a hospital maintained by the company ₹ 7,000
- (iii) Rent free accommodation owned by the company
- (iv) Housing loan of ₹ 6,00,000 given on 01.04.2018 at the interest rate of 6% p.a. (No repayment made during the year). The rate of interest charged by State Bank of India (SBI) as on 01.04.2022 in respect of housing loan is 10%.
- (v) Gifts in kind made by the company on the occasion of wedding anniversary of Mr. Sonu ₹ 4,750.
- (vi) A four seater dining table was provided to Mr. Sonu at his residence. This was purchased by the company on 1.5.2019 for ₹ 60,000 and sold to Mr. Sonu on 1.8.2022 for ₹ 30,000.
- (vii) Personal purchases through credit card provided by the company amounting to ₹ 10,000 was paid by the company. No part of the amount was recovered from Mr. Sonu.
- (viii) A Maruti Suzuki car which was purchased by the company on 16.7.2019 for ₹ 2,50,000 was sold to Mr. Sonu on 14.7.2022 for ₹ 80,000.

Other income received by the assessee during the previous year 2022-23:

	Particulars	₹
(a)	Interest on Fixed Deposits with a company	5,000
(b)	Income from specified mutual fund	3,000
(c)	Interest on bank fixed deposits of a minor married daughter	3,000

- (i) Contribution to LIC towards premium under section 80CCC ₹ 1,00,000
 Deposit in PPF Account made during the year 2022-23 ₹ 40,000

Compute the taxable income of Mr. Sonu for the Assessment year 2023-24 assuming he is not opting for section 115BAC. (MTP 7 Marks March '23 & April '19)

Answer 16

Computation of taxable income of Mr. Sonu for the A.Y. 2023-24

	Particulars	₹	₹
(a)	Income from Salaries (See Working Note below)		7,12,800
(b)	Income from Other Sources		
	(i) Interest on fixed deposit with a company	5,000	
	(ii) Income from specified mutual fund	3,000	
	(iii) Interest on Fixed Deposit received by minor daughter (₹ 3,000 - ₹ 1500)	1,500	9,500
	Gross total income		7,22,300
	Less: Deductions under Chapter VI-A		
	Section 80C - PPF	40,000	
	Section 80CCC	1,00,000	1,40,000
	Total Income		5,82,300

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Paper 3 - Taxation

Working Note:

Computation of salary income of Mr. Sonu for the A.Y. 2023-24

Particulars	₹
Salary [₹ 46,000 x 12]	5,52,000
Medical facility [in the hospital maintained by the company is exempt]	-
Rent free accommodation	
15% of salary is taxable (i.e. ₹ 5,52,000 × 15% as per Rule 3(1))	82,800
Valuation of perquisite of interest on loan	
[Rule 3(7)(i)] – Perquisite value would be 10% as reduced by actual rate of interest charged i.e. [10% - 6% = 4% x ₹ 6,00,000]	24,000
Gift given on the occasion of wedding anniversary ₹ 4,750 is exempt, since its value is less than ₹ 5,000	-
Use of dining table for 4 months	
[₹ 60,000 x 10 / 100 x 4 / 12]	2,000
Perquisite on sale of dining table	
Cost	60,000
Less: Depreciation on straight line method @ 10% for 3 years	18,000
Written Down Value	42,000
Less: Amount paid by the assessee	30,000
	12,000
Purchase through credit card – not being a privilege but covered by section 17(2)(iv)	10,000
Perquisite on sale of car	
Original cost of car	2,50,000
Less: Depreciation from 16.7.2019 to 15.7.2020 @ 20%	50,000
	2,00,000
Less: Depreciation from 16.7.2020 to 15.7.2021 @ 20%	40,000
Value as on 14.07.2022- being the date of sale to employee	1,60,000
Less: Amount received from the assessee on 14.07.2022	80,000
	80,000
Gross Salary	7,62,800
Less: Standard deduction under section 16(ia)	50,000
Taxable Salary	7,12,800

Note: Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employee arising from the transfer of any movable asset, the normal wear and tear is to be calculated in respect of each completed year during which the asset was put to use by the employer. In the given case the third year of use of car is completed on 15.7.2022 whereas the car was sold to the employee on 14.7.2022. The solution worked out above provides for wear and tear for only two years.

Question 17

Mr. Sonu, aged 30 years, submits the information of following

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transaction/income during the P.Y.

2021-22

- (i) Mr. Sonu owns two house properties in Delhi. The details in respect of these properties are as under

	House 1 Self-occupied	House 2 Let-out
Rent received per month	Not applicable	₹ 50,000
Municipal taxes paid	₹ 7,500	Nil
Interest on loan (taken for purchase of property)	₹ 2,50,000	₹ 3,00,000
Principal repayment of loan (taken from HDFC bank)	₹ 2,00,000	₹ 3,00,000

- (ii) Mr. Sonu had another house in Delhi. During financial year 2015-16, he had transferred the said house to Ms. Varsha, daughter of his brother without any consideration. House would go back to Mr. Sonu after the life time of Ms. Varsha. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Sonu. Rent received by Ms. Varsha during the previous year 2021-22 from such house property is ₹ 6,50,000.
- (iii) Mr. and Mrs. Sonu forms a partnership firm with equal share in profits. Mr. Sonu transferred a fixed deposit of ₹ 50 lakhs to such firm. Firm had no income or expense other than the interest of ₹ 6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Sonu at the end of the year.
- (iv) Mr. Sonu holds preference shares in M/s A Pvt. Ltd. He instructed the company to pay dividends to Ms. Chandni, daughter of his servant. The transfer is irrevocable for the life time of Chandni. Dividend received by Ms. Chandni during the previous year 2021-22 is ₹ 10,00,000.
- (v) Mr. Sonu has a short term capital loss of ₹ 16,000 from sale of property and long term capital gain of ₹ 15,000 from sale of property.
- (vi) Other income of Mr. Sonu includes
- Interest from saving bank account of ₹ 2,00,000
 - Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.
 - Income from betting of ₹ 34,000
 - Income from card games of ₹ 46,000
 - Loss on maintenance of race horses of ₹14,600

Compute the total income of Mr. Sonu for the Assessment Year 2022-23 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC . (MTP 10 Marks April 22)

Answer 17

Computation of Total Income of Mr. Sonu for A.Y. 2022-23

Particulars	Amount (₹)	Amount (₹)
Income from house property		
House 1 [Self-occupied]		
Net annual value	-	
Less: Interest on loan [upto ₹2,00,000]	2,00,000	(2,00,000)
House 2 [Let out]		
Gross annual value1 [₹50,000 x 12]	6,00,000	
Less: Municipal taxes	-	
Net annual value	6,00,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,80,000	
(b) Interest on loan	3,00,000	1,20,000

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Paper 3 - Taxation

House in Delhi [Since Mr. Sonu receives direct or indirect benefit from income arising to his brother's daughter, Ms. Varsha, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Sonu as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Varsha]		
Gross Annual Value ²	6,50,000	
Less: Municipal taxes	-	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan	-	4,55,000
		3,75,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		
Capital Gains		
Long term capital gain from sale of property	15,000	
Less: Short-term capital loss can be set-off against both short- term capital gains and long-term capital gains ³ . Short term capital loss of ₹ 16,000 set off against long-term capital gains to the extent of ₹15,000 ⁴ . Balance short term capital loss of ₹ 1,000 to be carry forward to A.Y.2023-24	15,000	-
Income from other sources		
Dividend on preference shares [Taxable in the hands of Mr. Sonu as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	10,00,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	13,55,000
Gross Total Income		17,30,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C [Principal repayment of loan ₹ 5 lakh, restricted to ₹1,50,000]	1,50,000	
Deduction under section 80TTA [Interest from savings bank account]	10,000	1,60,000
Total Income		15,70,000

Losses to be carried forward to A.Y. 2023-24

Particulars	Amount (₹)
Short term capital loss [₹ 16,000 – ₹ 15,000]	1,000

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Paper 3 - Taxation

Loss on maintenance of race horses [Loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y.2023-24]	14,600
--	--------

- 1 Rent receivable has been taken as the gross annual value in the absence of other information
- 2 Rent receivable has been taken as the gross annual value in the absence of other information
- 3 as per section 74(1) 4 as per section 74(1)

Question 18

Mrs. Sushma, born on 1st April, 1958 furnishes the following information for the year ended 31-03-2018:

Particulars	₹
Long-term capital gains on sale of shares in XYZ Pvt. Ltd.	2,00,000
Short-term capital gains on sale of house property	30,000
Dividend income from ABC Ltd, an Indian company	11,50,000
Business Income	3,20,000
Salary	2,40,000
Lottery winning (Gross)	2,20,000
Net agricultural income	60,000
Mrs. Sushma has paid the following:	
LIC premium of self	40,000
LIC premium of husband	20,000
Deposit in Tax Saver Deposit with PNB Bank in the name of major son	25,000

Compute the tax payable by Mrs. Sushma for the Assessment Year 2018-19.(MTP 6 Marks, March'18)

Answer 18

Computation of tax payable by Mrs. Sushma for the A.Y.2018-19

Particulars	₹	₹
Step 1		
Agricultural income and Non-agricultural income (₹ 60,000 + ₹ 20,50,000) [For computation of non-agricultural income, see Working Note below]	21,10,000	
Tax on the above income		
(i) Tax on long-term capital gain of ₹ 2,00,000 @ 20%	40,000	
(ii) Tax on dividend of ₹ 1,50,000 @ 10% (taxable as per normal slab rates as per amendments)	15,000	
(ii) Tax on winning from lotteries ₹ 2,20,000 @ 30%	66,000	
(iv) Tax on remaining income of ₹ 16,90,000 (₹ 16,30,000 + ₹ 60,000) at normal slab rate i.e., 1,12,500 plus 6,90,000 @ 30%	3,19,500	4,23,000
Total tax on ₹ 11,60,000		4,23,000
Step 2		

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Basic exemption limit to agricultural income (₹ 3,00,000 + ₹ 60,000)	₹ 3,60,000	
Tax on ₹ 3,60,000		3,000
Step 3		
Tax on non-agricultural income (Tax under step 1 – Tax under step 2) (₹ 1,49,000 – ₹ 3,000)		4,20,000
Add: Education cess @ 2%		2,920
Add: Secondary and higher education cess @ 1%		1,460
Add: EC & HSEC @ 4%		16,800
Tax payable by Mrs. Sushma		50,380

Working Note:**Computation of total income of Mrs. Sushma for the A.Y. 2018-19**

Particulars	₹	₹
Business income		3,20,000
Salary (Less standard deduction of Rs 50,000 as per amendment) (2,40,000-50,000))		1,90,000
Dividend income [See Note 2]		11,50,000
Long term capital gains on sale of shares in XYZ Pvt. Ltd.		2,00,000
Short term capital gains on sale of house property		30,000
Lottery winning (Gross)		2,20,000
Gross Total Income		21,10,000
Less: Deduction under section 80C		
Life insurance premium of self	40,000	
Life insurance premium of husband	20,000	60,000
Total Income		20,50,000

Notes:

- Mrs. Sushma born on 1st April, 1958, turns 60 years of age on 31.03.2018. Therefore, she is a senior citizen for the P.Y. 2017-18 and is entitled to the higher basic exemption limit of ₹ 3,00,000.
- ~~Dividend received from ABC Ltd, an Indian Company, upto ₹ 10,00,000 is exempt under section 10(34). ₹ 1,50,000, being dividend received in excess of ₹ 10,00,000 would be taxable @10% as per section 115BBDA. No deduction is allowable in respect of any expenditure or allowance against such income.~~
As per amendment dividend is fully taxable at normal slab rates
- Short-term capital gains on sale of house property are taxable at normal rates.
- Tax saver deposit in the name of major son does not qualify for deduction under section 80C.

Question 19

From the following information of Ms. Kareena, born on 16th August, 1975, an Indian resident, you are required to compute total income and tax payable by Ms. Kareena for the Assessment Year 2018-19.

Particulars	Rs.
Long-term capital gains on sale of house	1,50,000
Short-term capital gains on sale of shares in B Pvt. Ltd.	50,000
Loss from house property	3,50,000

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Interest from saving account in post office	15,000
Prize winning from a T.V. show (Gross)	20,000
Business income	5,50,000
Net agricultural income	1,10,000
LIC premium for self and husband	70,000
Tuition fees to University for full time education of her daughter	50,000

(MTP 7 Marks, Aug'18)

Answer 19

Computation of total income of Ms. Kareena for the A.Y.2018-19

Particulars	Rs.	Rs.
Profits and gains from business or profession		
Business income	5,50,000	
Less: Loss from house property of Rs. 3,50,000 to be restricted to Rs. 2,00,000 by virtue of section 71(3A) [Note 2]	2,00,000	3,50,000
Capital Gains		
Long term capital gains on sale of house	1,50,000	
Short term capital gains on sale of shares in B Pvt. Ltd	50,000	2,00,000
Income from other sources		
Interest from saving account in post office	15,000	
Less: Exempt under section 10(15) to the extent of Rs. 3,500	3,500	
	11,500	
Prize winnings from a T.V. show	20,000	31,500
Gross Total Income		5,81,500
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Life insurance premium for self and husband	70,000	
Tuition fees to University for full time education	50,000	
	1,20,000	
Deduction under section 80TTA - Interest on saving account in post office	10,000	1,30,000
Total Income		4,51,500

Computation of tax payable by Ms. Kareena for the A.Y.2018-19

Particulars	Rs.	Rs.
Step 1		
Agricultural income and Non-agricultural income (Rs. 1,10,000 + Rs. 4,51,500)	5,61,500	
Tax on the above income		
(i) Tax on long-term capital gain of Rs. 1,50,000 @ 20%	30,000	
(ii) Tax on winnings of Rs. 20,000 from a T.V. show @ 30%	6,000	43,075
(iii) Tax on balance income of Rs. 3,91,500	7,075	
Total tax on Rs. 5,61,500		43,075
Step 2		
Basic exemption limit to agricultural income (Rs. 2,50,000 + Rs. 1,10,000)	3,60,000	
35B Tax on Rs. 3,60,000		5,500

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	Step 3	
	Tax on non-agricultural income (Tax under step 1 – Tax under step 2) (Rs. 43,075 – Rs. 5,500)	37,575
	Add: Education cess @ 2%	751
	Add: Secondary and higher education cess @ 1%	376
	Add: EC & HSEC @ 4% (as per amendment)	1503
	Tax payable by Ms. Kareena	39,078
	Tax payable (Rounded off)	39,070

Notes:

1. Short-term capital gains on sale of shares in B Pvt. Ltd. is taxable at normal rates.
2. The balance loss of Rs. 1,50,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.

Question 20

From the following details furnished by Mrs. Heena, a finance manager of AB Ltd., Delhi, compute the gross total income for the Assessment Year 2018-19.

Particulars	Amount (Rs.)
Salary including Dearness Allowance (Dearness Allowance forms part of salary for retirement benefits)	6,50,000
Conveyance allowance of Rs.900 p.m.	10,800
Children education allowance	Rs.500 p.m. for two children
Bonus	50,000
Salary of servant provided by the employer	48,000
Bills paid by the employer for gas, electricity and water provided free of cost at the residence of Mrs. Heena	82,000
Computer (cost Rs.35,000) kept by the employer in the residence of Mrs. Heena from 01.07.2017	
Contribution to recognized provident fund	15 % of salary including D.A.

Heena purchased a flat in a co-operative housing society in Rohini, Delhi for self occupation for Rs.35,00,000 in April 2014, which was financed by a loan from State Bank of India of Rs.20,00,000 @11% interest and her own savings of Rs.5,00,000 and a deposit of Rs.10,00,000 from Bank of Baroda, to whom she let out her another house in Dwarka, Delhi on lease for ten years. The rent payable by Bank of Baroda is Rs. 35,000 per month. Other relevant particulars are given below:

- (i) Municipal taxes paid by Heena for her flat in Rohini are Rs. 15,000 per annum and for her house in Dwarka are Rs. 12,000 per annum.
- (ii) Principal loan amount outstanding as on 01-04-2017 was Rs.18,50,000.
- (iii) She also paid Rs. 7,000 towards insurance of both the houses.
- (iv) Mrs. Heena's son is studying in a school run by the employer company throughout the financial year 2017-18. The education facility was provided free of cost. The cost of such education in similar school is Rs.2,500 per month.
- (v) Heena also received gifts of Rs.45,000 each from her two friends during the financial year 2017-18. (MTP 10 Marks, Oct'18)

Answer 20

Computation of Gross Total Income of Mrs. Heena for the A.Y. 2018-19

Particulars	Rs.	Rs.
Salaries		
Salary including dearness allowance		6,50,000

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Bonus		50,000
Employer's contribution to recognized provident fund in excess of 12% of salary (i.e., 3% of Rs.6,50,000)		19,500
Conveyance allowance (Fully exempt under section 10(14)(i) read with Rule 2BB(1)(c), assuming that it is granted to meet the expenditure actually incurred on conveyance in performance of duties of an office or employment of profit).		Nil
Children education allowance (Rs.500 x 12)	6,000	
Less: Exempt under section 10(14) (Rs.100 x 2 x 12)	2,400	3,600
Value of perquisites:		
(i) Salary of servant [Rule 3(3)]	48,000	
(ii) Free gas, electricity and water [Rule 3(4)]	82,000	
(iii) Cost of free education provided by employer (Rs. 2,500 x 12) is fully taxable, since the cost of education exceeds Rs.1,000 per month [Rule 3(5)].	30,000	
(iv) Computer provided in the residence of employee by the employer- not chargeable to tax [Rule3(7)(vii)]	Nil	1,60,000
Less: Standard Deduction upto Rs. 50,000 (as per amendment)	8,83,100 50,000	8,33,100
Income chargeable under the head "Salaries"		
Income from house property		
Let-out property (At Dwarka)		
Gross Annual Value (GAV) (Lease rental is taken as GAV in the absence of other information) (Rs.35,000 x 12)	4,20,000	
Less: Municipal taxes paid	12,000	
Net Annual Value (NAV)	4,08,000	
Less: Deduction under section 24(a): 30% of NAV* (A)	1,22,400	
(A)	2,85,600	
Self-occupied property (At Rohini)		
Net Annual Value (NAV) [Since the property is self-occupied]	Nil	
Less: Deduction under section 24(b)		
Interest on loan from State Bank of India @11% of Rs.18,50,000 = Rs.2,03,500 restricted to	(2,00,000)	
(B)	(2,00,000)	
Income from house property [A - B]		85,600
Income from Other Sources		
Gift received from two friends [taxable under section 56(2)(x)] since the aggregate amount received during the year exceeds Rs.50,000 (Rs.45,000 x 2)		90,000
Gross Total Income		10,08,700

* No separate deduction is allowable in respect of insurance.

Question 21

Compute the total income of Mr. Sahil for the assessment year 2019-20 from the following particulars:

Particulars	Amount (Rs.)
Income from business before adjusting the following items:	2,50,000

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(a)	Business loss brought forward from assessment year 2015 -16	85,000
(b)	Current year depreciation	30,000
(c)	Unabsorbed depreciation of earlier year	2,00,000
Income from house property (Gross Annual Value)		5,10,000
Municipal taxes paid		50,000
Mr. Sahil sold a plot at Noida on 12th September, 2018 for a consideration of Rs.7,90,000, which had been purchased by him on 20th December, 2016 at a cost of Rs.6,10,000		
Long-term capital loss on sale of shares sold through recognized stock exchange (STT paid at acquisition and sale)		90,000
Long-term capital gain on sale of debentures		1,35,000
Dividend on shares held as stock in trade		25,000
Dividend from a company carrying on agricultural business		15,000

(MTP 7 Marks, March'19)

Answer 21

Computation of total income of Mr. Sahil for the A.Y. 2019-20

	Particulars	Rs.	Rs.
I.	Income from house property		
	Gross Annual Value	5,10,000	
	Less: Municipal taxes paid	50,000	
	Net Annual Value (NAV)	4,60,000	
	Less: Deductions under section 24		
	30% of NAV	1,38,000	
	Interest on housing loan	-	3,22,000
II	Income from business	2,50,000	
	Less : Current year depreciation under section 32(1)	30,000	
	Less: Set-off of brought forward business loss of A.Y. 2015-16 under section 72	2,20,000	
		85,000	
		1,35,000	
	Less:Unabsorbed depreciation set-off [See Note 3]	1,35,000	Nil
III.	Capital gains		
	Long-term capital gain on sale of debentures	1,35,000	
	Less: Long-term capital loss on sale of shares (STT is paid at acquisition and sale) [See Note 1]	90,000	
		45,000	
	Less: Unabsorbed depreciation set-off [See Note 3]	45,000	Nil
	Short term capital gain on sale of land [See Note 2]	1,80,000	
	Less:Unabsorbed depreciation set-off [See Note 3]	20,000	1,60,000
IV.	Income from other sources		
	Dividend on shares (whether held as stock-in-trade or from a company carrying on agricultural operations) – exempt under section 10(34) (As per amendment it is taxable)	-	Nil
			40,000
	Total income		5,12,000

Notes:

(1) Long-term capital loss on sale of listed equity shares through a recognized stock

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exchange on which STT is paid at the time of acquisition and sale of such shares can be set-off against long-term capital gains on sale of debentures applying the provisions of section 70(3).

- (2) Since land is held for a period of less than 24 months, the gain of Rs.1,80,000 arising from sale of such land is a short-term capital gain.
- (3) Brought forward unabsorbed depreciation can be adjusted against any head of income. However, it is more beneficial to set-off unabsorbed depreciation first against long-term capital gains, since it is taxable at a higher rate of 20% (the other income of the assessee falling in the 5% slab rate). Therefore, unabsorbed depreciation is first set-off against long-term capital gains to the extent of Rs.45,000. The remaining unabsorbed depreciation is adjusted against business income to the extent of Rs.1,35,000 and the balance of Rs.20,000 is adjusted against short-term capital gains. In the alternative, the balance of Rs.20,000 may also be set-off against income from house property, in which case, the net income from house property would be Rs.3,02,000 and short-term capital gains would be Rs.1,80,000. The gross total income and total income would, however, remain unchanged.

Question 22

Mr. Satish, aged 47 years, is serving in a public limited company as General Manager (Finance). His total emoluments for the year ended 31st March, 2019 are as follows:

Basic Salary	Rs.5,40,000
HRA (Computed)	Rs.1,80,000
Transport allowance	Rs.22,000

Apart from the above, his employer has sold the following assets to him on 1st January, 2019:

- (iii) **Laptop for Rs.20,000 (Acquired in September, 2017 for Rs.1,20,000)**
 (iv) **Car 1800 cc for Rs.3,20,000 (purchased in April, 2016 for Rs.8,50,000)**

He also owns a residential house, let out for a monthly rent of Rs.15,000. The fair rental value of the property for the let out period is Rs.1,50,000. The house was self-occupied by him from 1st January, 2019 to 31st March, 2019. He has taken a loan from bank of Rs.20 lacs for the construction of the property, and has repaid Rs.1,05,000 (including interest Rs.40,000) during the year.

- (v) **Mr. Satish sold equity shares of different Indian companies on 14th March, 2019:**

Name	Sale value (per share)	Purchase price (per share)	Acquired on	No. of shares
A Ltd.	Rs.150	Rs.120 (STT paid at acquisition)	2nd Feb, 2018	200
B Ltd.	Rs.82	Rs.62	16th April, 2018	125

CII – F.Y. 2018-19: 280; F.Y. 2017-18: 272

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.125% on the gross consideration. He received income-tax refund of Rs.5,750 (including interest Rs.750) relating to the assessment year 2017-18.

- (vi) **Mr. Satish made payment of Rs.80,000 vide cheque no. 245315 towards medical insurance as lumpsum premium for himself and his wife for 4 years. He also made cash payment of Rs.8,000 towards preventive health checkup for himself and his wife.**
- (vii) **Mr. Satish deposited Rs.1,30,000 in Public Provident Fund and Rs.80,000 in 5 years term deposit in the name of his minor son, Aryan.**

Compute the total income and tax liability of Mr. Satish for the Assessment Year 2019 -20. (MTP 14 Marks, March'19)

Answer 22

Computation of total income of Mr. Satish for the A.Y. 2019 -20

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Paper 3 - Taxation

Particulars		Rs.
Income from salaries [Working Note (1)]		9,66,000
Income from house property [Working Note (2)]		1,00,000
Capital gain [(Working Note 3)]		
Long-term capital gains		5,970
Short-term capital gains		2,490
Income from other sources: Interest on income-tax refund		750
Gross Total Income		10,75,210
Less: Deduction under Chapter VIA		
Deduction under section 80C		
- Public Provident Fund	1,30,000	
5 years Term deposit (not allowed as deduction in the name of minor son)	-	
- Repayment of housing loan (principal)	65,000	
Restricted to	1,95,000	1,50,000
Deduction under section 80D [Working Note (4)]		25,000
Total Income		9,00,210

Computation of tax payable by Mr. Satish for the A.Y. 2019 -20

Particulars	Rs.
Tax on LTCG of Rs.5,970 [Exempt u/s 112A]	-
Tax on STCG of Rs.2,490 u/s 111A @15%	374
Tax on balance income of Rs.8,91,750	90,850
	91,224
Add: Health and Education cess@4%	3,649
Total tax payable	94,873
Tax liability (Rounded off)	94,870

Working Notes:**(1) Income from salaries**

Particulars	Rs.	Rs.
Basic Salary		5,40,000
HRA (computed)		1,80,000
Transport allowance		22,000
Perquisites (relating to sale of movable assets by employer)		
Laptop		
Cost [September, 2017]	1,20,000	
Less: Depreciation at 50% for one completed year	60,000	
WDV [September, 2018]	60,000	
Less: Amount paid to the employer	20,000	
Perquisite value of laptop (A)	40,000	
Car		
Cost [April, 2016]	8,50,000	
Less: Depreciation for the 1st year (April,16 to March,17) @ 20% of WDV	1,70,000	
WDV [April, 2017]	6,80,000	
Less: Depreciation for the 2nd year (April,17 to March,18) @ 20% of WDV	1,36,000	
WDV [April, 2018]	5,44,000	

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Less: Amount paid to the employer	3,20,000	
Perquisite value of car (B)	2,24,000	
Perquisite value (A) + (B)		2,64,000
Gross Salary		10,06,000
Less: Standard Deduction under section 16(ia) (as per amendment Rs. 50,000)		40,000 50,000
Income chargeable under the head "Salaries"		9,56,000

(2) Income from house property

Section 23(2) provides that the annual value of a self-occupied house shall be taken as Nil. However, section 23(3) provides that the benefit of self-occupation would not be available if the house is actually let during the whole or part of the previous year. This implies that the benefit of taking the annual value as „Nil“ would be available only if the house is self-occupied for the whole year.

In this case, therefore, the benefit of taking annual value as „Nil“ is not available since the house is self-occupied only for 3 months. In such a case, the gross annual value has to be computed as per section 23(1). Accordingly, the fair rent for the whole year should be compared with the actual rent for the let-out period and whichever is higher shall be adopted as the Gross Annual Value.

Particulars	Rs.	Rs.
Gross Annual Value (higher of fair rent for the whole year and actual rent for the let-out period)		2,00,000
Fair rent for the whole year = Rs.1,50,000 × 12/9	2,00,000	
Actual rent received = Rs.15,000 × 9	1,35,000	
Less: Municipal taxes		Nil
Net Annual Value (NAV)		2,00,000
Less: Deductions under section 24		
30% of NAV	60,000	
Interest on loan [See Note below]	40,000	1,00,000
Income from house property		1,00,000

Note: It is presumed that the interest of Rs.40,000 paid on housing loan represents the interest actually due for the year.

(3) Income chargeable as "Capital Gains"

Section 112A exempts long-term capital gain on sale of equity shares of a company upto Rs.1 lakh, if securities transaction tax is paid both at the time of sale and acquisition of such shares. Such long-term capital gain in excess of Rs.1 lakh is taxable @10%. Since Mr. Satish has held shares of A Ltd. for more than 12 months and securities transaction tax has been paid on such sale and at the time of acquisition of shares, the gains arising from sale of such shares is a long-term capital gain and the same would be taxable under section 112A. As per section 48, the benefit of indexation would not be applicable on such equity shares.

The long term capital gain arising from sale of shares of A Ltd.

Particulars	Rs.
Sale consideration (Rs.150 x 200)	30,000
Less: Brokerage @ 0.1%	30
Net sale consideration	29,970
Less: Cost of acquisition (Rs.120 x 200)	24,000

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and Expenditure account.

- (ii) He received salary of Rs. 1,50,000 and commission of Rs. 50,000 from a nursing home in which Dr. (Mrs.) Saxena is also an equal partner. No TDS was deducted.
- (iii) He received fees of Rs. 50,000 from University of Chennai as lecturer.
- (iv) Received pension of Rs. 84,000 against Life insurance cum pension plan from LIC
- (v) He paid lump sum payment of Rs. 1,05,000 by cheque as Mediclaim insurance premium for 3 years term for self and his wife medical treatment.
- (vi) He paid LIC premium of Rs. 80,000 for his own life against a policy taken on 01.12.2017. Sum assured is Rs. 10,00,000
- (vii) He has deposited Rs. 1,20,000 in PPF
- (viii) He purchased 300 shares in C Ltd. on 12.1.2017 at a cost of Rs.2,500 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is Rs.1,800. He sold all the shares of C Ltd. on 15.7.2018 for Rs.3,200.
You are required to compute the total income and tax payable thereon by Dr. Saxena for the assessment year 2019-20. (MTP 14 Marks, Oct'19)

Answer 23

Computation of total Income and tax payable by Dr. Saxena for the A.Y. 2019 -20

Particulars	Rs.	Rs.
Income from House Property (Note 1)		11,900
Profits and gains of business or profession (Note 2)		8,71,000
Income from other sources (Note 3)		2,60,400
Long-term capital gain under section 112A [The cost of acquisition of equity shares of C Ltd. would be Rs. 2,500, being higher of actual cost i.e., Rs. 2,500 and Rs. 1,800 (being the lower of FMV of Rs. 1,800 as on 31.1.2018 and actual sale consideration of Rs. 3,200). Accordingly, the long-term capital gains would be Rs. 2,10,000 i.e., [(Rs. 3,200 – Rs. 2,500) x 300].		2,10,000
Gross Total income		13,53,300
Less: Deductions under Chapter VIA		
(i) Deduction under section 80C		
Investment in PPF	1,20,000	
Life insurance premium paid [Fully allowable since it does not exceed 10% of sum assured]	80,000	
	2,00,000	
Deduction restricted to	1,50,000	
(ii) Deduction under section 80D		
Medical insurance premium for self and his wife, pertaining to the previous year 2018-19 is Rs. 35,000, being 1/3rd of Rs. 1,05,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to	25,000	1,75,000
Total income		11,78,300
Components of Total Income		
Special income :		
Long-term capital gains under section 112A		2,10,000
Winning from lotteries (chargeable at special rate @ 30% under section 115BB)		10,000
Normal income		9,58,300

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		11,78,300
Computation of Tax		
Tax on long-term capital gains under section 112A @10% in excess of Rs. 1,00,000		11,000
Tax on winnings from lotteries @ 30%		3,000
Tax on normal income (Rs. 9,58,300)		
Upto Rs. 2,50,000	NIL	
Rs. 2,50,001-Rs. 5,00,000 @ 5%	12,500	
Rs. 4,58,300 (Rs. 5,00,001 – Rs. 9,58,300) @ 20%	91,660	1,04,160
Income tax payable		1,18,160
Add: Health & Education cess @4%		4,726
Total Tax Payable		1,22,886
Less: Tax deducted at source		
From Interest	3,000	
From lottery income	3,000	6,000
		1,16,886
Less : Advance tax paid		1,40,000
Net Tax Refundable		(23,114)
Net Tax Refundable (rounded off)		(23,110)

Notes:

1. Computation of Income from House Property

Particulars	Rs.
Gross Annual Value – Rent received (treated as fair rent)	20,000
Less : Municipal taxes paid	3,000
Net Annual Value (NAV)	17,000
Less : Statutory deduction under section 24 @ 30% of NAV	5,100
Income from House Property	11,900

2. Computation of Profits and gains of business or profession

Particulars	Rs.	Rs.
Net Profit as per Income & Expenditure Account		6,70,900
Add : Depreciation charged	42,500	
Municipal Taxes paid	3,000	
Advance Tax (See Note-4)	1,40,000	1,85,500
Less: Rent received	20,000	8,56,400
Interest on Post Office MIS	86,400	
Interest on Term Deposit with bank (Net of TDS)	27,000	
Winning from lotteries (Net of TDS)	7,000	
Depreciation as per Income-tax Act, 1961	45,000	1,85,400
Salary from Nursing Home as partner	1,50,000	6,71,000
Commission from Nursing home as partner	50,000	2,00,000
Income from business		8,71,000

3. Computation of Income from Other Sources

Particulars	Rs.
Interest Post Office MIS	86,400
Interest on Term Deposit with Bank (Gross)	30,000
Winning from lotteries (Gross) (See Note 7)	10,000
Fees from University of Chennai	50,000
Pension from LIC	84,000
Income from Other Sources	2,60,400

Advance Tax is not allowable as deduction.

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1. Depreciation of Apparatus :

	Rs.
WDV as on 1.4.2018	3,00,000
Depreciation @15%	45,000
WDV as on 01.4.2019	2,55,000

- Any salary, bonus, commission or remuneration by whatever name called due to or received by a partner of a firm from the firm shall not be treated as salary but it shall be treated as income from business or profession for the purposes of section 28.
- As per section 58(4), no expenditure can be allowed against winnings from lotteries. Therefore, amount spent on lottery tickets being Rs. 350, cannot be allowed as deduction from income from winnings of lotteries.
- Pension from LIC is taxable as Income from other sources.

Question 24

You are required to compute the total income and tax liability of Mr. Alok, aged 58 years, a resident individual. Mr. Alok is an advocate and furnishes you the receipts and payments account for the financial year 2020-21.

Receipts and Payments Account

Receipts	Rs.	Payments	Rs.
Opening Balance		Staff salary and bonus to clerks	17,50,000
(01-04-2020)			
Cash & Bank	80,000	Other general and administrative expenses	22,00,000
Fee from legal services	49,60,000	Office rent	1,48,000
Motor car loan from SBI @12% p.a. interest	5,00,000	Life Insurance Premium (Sum Assured Rs. 5,00,000]	49,000
Sale receipts of 5,800 listed equity shares (sold on 31st March 2021)	5,95,000	Motor car (Acquired in January 2021 by way of NEFT)	9,50,000
		Books bought by way of A/c payee cheque in the month of May, June and September 2020 (annual publications)	80,000
		Computer acquired on 1-11-2020 for professional use (payment made by A/c payee cheque)	52,000
		Domestic drawings	6,23,000
		Motor car maintenance	72,000
		Public Provident Fund subscription	1,50,000
		Closing balances (31-03-2021)	
		Cash & Bank	61,000
	61,35,000		61,35,000

Other information:

- Listed equity shares on which STT was paid were acquired in August 2016 for Rs. 1,21,800. The fair market value of such shares as on 31st January 2018 and on 1st April 2018 was Rs. 75 per share and Rs. 85 per share, respectively.

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- (ii) Motor car was put to use for both official and personal purposes. 1/3rd of the motor car is for personal purpose. No interest on car loan was paid during the previous year 2020-21.
- (iii) Mr. Alok purchased a flat in Kanpur for Rs. 35,00,000 in July 2013 cost of which was partly financed by a loan from Punjab National Housing Finance Limited of Rs. 25,00,000, his own savings Rs. 1,00,000 and a deposit from Repco Bank for Rs. 9,00,000. The flat was given to Repco Bank on lease for 10 years @ Rs. 35,000 per month. The following particulars are relevant:
- Municipal taxes paid by Mr. Alok Rs. 8,200 per annum
 - House insurance Rs. 11,000
- As per interest certificate issued by Punjab National Housing Finance Limited for the financial year 2020-21, he paid Rs. 1,80,000 towards principal and Rs. 2,01,500 as interest.
- (iv) He earned Rs. 1,20,000 in share speculation business and lost Rs. 1,80,000 in commodity speculation business.
- (v) Mr. Alok received a gift of Rs. 21,000 each from four of his family friends.
- (vi) He contributed Rs. 1,21,000 to PM Cares Fund by way of bank draft.
- (vii) He donated to a registered political party Rs. 3,50,000 by way of cheque.
- (viii) He follows cash system of accounting.
- (ix) Cost Inflation Index : F.Y. 2016-17 – 264; F.Y. 2018-19 – 280; F.Y. 2020-21 – 301
Assume Mr. Alok is not willing to opt for the provisions of section 115BAC. (MTP 14 Marks, March'21, RTP May'19) (Same concepts different figures fewer adjustments MTP 14 Marks May'20, PYP 10 Marks May'18)

Answer 24

Computation of total income and tax liability of Mr. Alok for A.Y. 2021-22

Particulars	Rs.	Rs.	Rs.
Income from house property			
Gross annual value ¹ (Rs. 35,000 x 12)		4,20,000	
Less: Municipal taxes paid by Mr. Alok		8,200	
Net annual value		4,11,800	
Less: Deductions under section 24			
(a) 30% of Net Annual Value		1,23,540	
(b) Interest on house borrowing (allowed in full in case of let out property)		2,01,500	
			86,760
Profits and gains of business or profession			
Income from profession			
Fees from legal services		49,60,000	
Less: Expenses allowable as deduction			
- Staff salary and bonus	17,50,000		
- Other general and administrative expenses	22,00,000		
- Office rent	1,48,000		
- Motor car maintenance (Rs. 72,000 x 2/3)	48,000		
- Car loan interest – not allowable, since Mr. Alok follows cash system of accounting and no interest is paid during the previous year)	-	41,46,000	

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		8,14,000	
Less: Depreciation u/s 32			
- Motor car Rs. 9,50,000 x 15% x 50% x 2/3, being put to use for less than 180 days	47,500		
- Books being annual publications [Rs. 80,000 x 40%]	32,000		
Computer @40% of Rs. 52,000 x 50%, since the same is put to use for less than 180 days	10,400	89,900	
		7,24,100	
For the P.Y. 2020-21, the gross receipts of Mr. Alok is Rs. 49,60,000. Since, it does not exceed Rs. 50,00,000, he is eligible to opt for presumptive tax scheme under section 44ADA In such case, his professional income would be Rs. 24,80,000, being 50% of Rs. 49,60,000 It is more beneficial for Mr. Alok to declare profit of Rs. 7,24,100 as per books of accounts which is lower than the profits computed on presumptive basis under section 44ADA. However, for declaring lower profits, he has to maintain books of account under section 44AA and get the same audited under section 44AB			
Income from share speculation business	1,20,000		
Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of Rs. 60,000 from commodity speculation business to be carried forward to A.Y. 2022-23	1,20,000	Nil	7,24,100
Capital Gains Long-term capital gains on sale of 5800 listed shares Sale consideration		5,95,000	
Less: Cost of acquisition is higher of		4,35,000	
- Cost of acquisition	1,21,800		
- Lower of Rs. 4,35,000 (Rs. 75 x 5800), being fair market value as on 31.1.2018 and Rs. 5,95,000, being full value of consideration on transfer	4,35,000		1,60,000
Income from other sources Cash Gift of Rs. 84,000 i.e., Rs. 21,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gifts exceeds Rs. 50,000			84,000
Gross Total Income			10,54,860
Less: Deductions under Chapter VI-A Section 80C			
Life insurance premium	49,000		
Repayment of housing loan	1,80,000		
PPF subscription	1,50,000		
	3,79,000		

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Restricted to Rs. 1,50,000		1,50,000	
Section 80G			
Contribution to PM Cares Fund (100% of Rs. 1,21,000) by way of bank draft		1,21,000	
Section 80GGC			
Donation to registered political party made by way of cheque		3,50,000	
			6,21,000
Total Income			4,33,860
Tax liability			
Tax @10% under section 112A on long-term capital gains exceeding Rs. 1,00,000 i.e., Rs. 60,000			6,000
Tax @5% on Rs. 23,860 [Rs. 2,73,860 (total income excluding LTCG u/s 112A) - Rs. 2,50,000, being basic exemption limit			
			1,193
			7,193
Less: Rebate u/s 87A [Since the total income does not exceed Rs. 5 lakhs. Rebate u/s 87A is not available on tax on LTCG taxable u/s 112A]			1,193
			6,000
Add: Health and Education cess@4%			240
Tax liability			6,240

Question 25

You are required to compute the total income and tax payable by Mr. Josh, aged 48 years, from the following information provided by him for the Assessment Year 2021-22. Mr. Josh does not want to opt for section 115BAC for the A.Y. 2021-22:

- (vi) Basic Salary @ Rs. 51,000 per month, Dearness allowance @ Rs. 10,000 per month (Part of salary for retirement benefits), House rent allowance Rs. 4,000 per month and rent paid for house in Chennai is Rs. 7,000 per month.
- (vii) He owns a commercial building at Mumbai, which is let out on 1.7.2020 at a monthly rent of Rs. 46,000 to ABC Ltd. He paid municipal taxes of Rs. 27,000 and Rs. 25,000 for the financial year 2019-20 and 2020-21 on 31-3-2021 and 20-4-2021, respectively. Fair rent of the building is Rs. 33,000 p.m.
- (viii) He purchased 4000 unlisted shares of Maharaja Limited on 25-2-2008 for Rs. 80,000. Company declared bonus in the ratio of 1:1 on 15th March, 2008. Mr. Josh sold 3000 bonus shares on 15.01.2021 for Rs. 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2007-08: 129, 2020-21: 301)
- (ix) In April, 2020, he received dividend of Rs. 9,00,000 from ABC Ltd., an Indian company. The dividend is declared by the company in P.Y. 2019-20, and the company has paid dividend distribution tax on the same.
- (x) Interest from saving bank account with SBI Bank Rs. 15,000 and lottery winnings (Net of TDS@30%) is Rs. 21,000.

He paid the following amounts during the P.Y. 2020-21:

- (a) Deposits in Public Provident Fund Rs. 1,50,000.
- (b) Medical insurance premium paid for health of his wife Rs. 19,000 and for health of dependent son Rs. 12,000 through cheque. (MTP 14 Marks,

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April'21, PYP 14 Marks May '19)

Answer 25

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

Particulars	Rs.	Rs.
Salaries		
Basic Salary = Rs. 51,000 x 12	6,12,000	
Dearness Allowance (DA) = Rs. 10,000 x 12	1,20,000	
House Rent Allowance (HRA) = Rs. 4,000 x 12 Rs. 48,000		
Less: Least of the following exempt u/s 10(13A) Rs. 10,800	37,200	
(i) HRA actually received = Rs. 4,000 x 12 = Rs. 48,000		
(ii) Rent paid (-) 10% of salary [Rs. 84,000 (i.e., Rs. 7,000 x 12) (-)		
Rs. 73,200 (10% of salary i.e., 10% of Rs. 7,32,000 (Basic Salary + DA)] = Rs. 10,800		
(iii) 50% of salary [50% of Rs. 7,32,000 (Basic Salary + DA)] = Rs. 3,66,000		
Gross Salary	7,69,200	
Less: Standard deduction u/s 16(ia)	50,000	
		7,19,200
Income from house property		
Gross Annual Value [Rs. 46,000 x 9, being the higher of actual rent received and fair rent]	4,14,000	
Less: Municipal tax paid during the P.Y. 2020-21	27,000	
Net Annual Value	3,87,000	
Less: Deduction u/s 24 [30% of Net Annual Value]	1,16,100	
		2,70,900
Capital Gains		
Full value of consideration	2,00,000	
Less: Cost of acquisition of bonus shares allotted on or after 1.4.2001	Nil	
Long-term capital gains (since bonus shares are held for a period of more than 24 months)		2,00,000
Income from Other Sources		
Dividend received from ABC Ltd., an Indian company	9,00,000	
Less: Exempt under section 10(34), since dividend distribution tax has been paid on such dividend	9,00,000	
(as per amendment dividend is taxable in the hands of shareholder and DDT is abolished but since the Question mentions DDT is paid we have assumed that dividend is not taxable in this particular case)		Nil
Interest from saving bank account with SBI Bank	15,000	
Lottery winnings [21,000 x 100/70]	30,000	
		9,45,000
Gross Total Income		21,35,100
Less: Deduction under Chapter VI-A Section 80C		

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Deposits in PPF	1,50,000	
Section 80D		
Medical insurance premium for wife and dependent son Rs. 31,000, restricted to	25,000	
Section 80TTA		
Interest on saving bank account with SBI	10,000	
		1,85,000
Total Income		19,50,100

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

Particulars	Rs.	Rs.
Tax on total income of Rs. 19,50,100		
Tax on long-term capital gains of Rs. 2,00,000@20% u/s 112	40,000	
Tax on lottery income of Rs. 30,000 @30% u/s 115BB	9,000	
Tax on other income of Rs. 17,20,100 [Rs. 10,50,100 – Rs. 2,00,000, capital gains – Rs. 30,000, lottery income]		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	
Rs. 5,00,001 – Rs. 10,00,000 [i.e., Rs. 5,00,100@20%]	1,00,000	
Rs. 10,00,001 – Rs. 17,20,100 [i.e., Rs. 7,20,100@30%]	2,16,030	
		3,77,530
Add: Health and education cess@4%		15,101
Tax liability		3,92,631
Less: Tax deducted at source		
TDS on lottery income	9,000	
TDS on rent u/s 194I [Rs. 4,14,000 x 7.5%]	31,050	*40,050
Tax Payable		3,52,581
Tax Payable (rounded off)		3,52,580

***Alternatively we can consider that TDS @10% on dividend has been deducted so TDS will be 40050+90000= 1,30,050 & Tax Payable will be reduced to 2,62,581**

Question 26

Mr. Rakesh, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2021

- (i) **He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2021 is ₹ 2,30,000.**
- (ii) **He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2018-19. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 25 lakhs.**
- (iii) **He also sold his vacant land on 10.11.2020 for ₹13 lakhs. The stamp duty value of land at the time of transfer was ₹ 17 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 5 lakhs. This land was acquired by him on 05.08.1995 for ₹ 1.75 lakhs. He had incurred registration expenses of ₹ 20,000 at that time. The cost of inflation index for the year 2020-21 and 2001-02 are 301 and 100 respectively.**
- (iv) **Received ₹ 40,000 as interest on saving bank deposits.**
- (v) **He occupies ground floor of his residential building and has let out first floor for**

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Paper 3 - Taxation

residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year. Both floor are of equal size.

- (vi) He paid insurance premium of ₹ 39,000 on life insurance policy of son, who is not dependent on him and ₹ 48,000 on life insurance policy of his dependent father.
- (vii) He paid tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child.

You are required to compute the total income and tax liability of Mr. Rakesh under normal provisions as well as under section 115BAC for the A.Y. 2021-22. Ignore AMT provisions.

(MTP 14 Marks, Oct'21) (Similar concept different figures and more adjustments PYP Nov'20 14 Marks)

Answer 26

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

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2020-21 pertaining to let out portion [₹ 60,000/2]		30,000	
	Net Annual Value (NAV)		1,98,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 1,98,000		59,400	
			1,38,600	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			1,38,600
II	Profits and gains of business or profession			
	Income from SEZ unit			25,00,000
III	Capital Gains			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	Full Value of Consideration [Higher of stamp duty value of ₹ 17 lakhs and Actual consideration of ₹ 13 lakhs, since stamp duty value exceeds actual consideration by more than 10%]		17,00,000	
	Less: Indexed Cost of acquisition [₹ 5,00,000 x 301/100]		15,05,000	1,95,000
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹ 1.75 lakhs + ₹ 0.20 lakhs = ₹ 1.95 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 5 lakhs			
IV	Income from Other Sources			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		40,000	
			2,48,000	

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	Interest on savings bank deposits		40,000	
				2,88,000
	Gross Total Income			31,21,600
	Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA @100% of export profits, since P.Y.2020-21, being the 3rd year of operations]			17,50,000
	[Profits of the SEZ x Export Turnover/Total Turnover] x 100%			
	[₹ 25 lakhs x ₹ 140 lakhs/ ₹ 200 lakhs x 100%]			
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C			
	Tuition fee paid for maximum of two children is allowable (₹ 14,000 x 2)	28,000		
	Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Rakesh	39,000		
	Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Rakesh	-	67,000	
	Deduction under section 80QQB		1,90,000	
	Royalty [₹ 2,88,000 x 15/18 = ₹ 2,40,000, restricted to amount brought into India in convertible foreign exchange ₹ 2,30,000 minus ₹ 40,000 expenses already allowed as deduction while computing royalty income]			
	Deduction under section 80TTA		10,000	
	Interest on savings bank account, restricted to ₹ 10,000			
				2,67,000
				11,04,600

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

Particulars	₹	₹
Tax on total income of ₹ 11,04,600		
Tax on LTCG of ₹ 1,95,000@20%		39,000
Tax on remaining total income of 9,09,600		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 9,09,600[@20% of ₹ 4,09,600]	81,920	94,420
		1,33,420
Add: Health and education cess@4%		5,337
Total tax liability		1,38,757
Tax liability (rounded off)		1,38,760

Computation of tax liability of Mr. Rakesh as per section 115BAC for A.Y.2021-22

Particulars	₹
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Gross total Income as per regular provisions of the Act	31,21,600
Less: Deduction u/s 10AA/ Deduction under Chapter VI-A [No deduction under section 10AA or under Chapter VI-A is allowed]	-
Total Income as per section 115BAC	31,21,600
Tax on total income of ₹ 31,21,600	
Tax on LTCG of ₹ 1,95,000@20%	39,000
Tax on remaining total income of 29,26,600	
Upto ₹ 2,50,000 ₹ 3,00,000 Nil	
₹ ₹ 3,00,000 - ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	
₹ 6,00,001 - ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	
₹ 9,00,001 - ₹ 12,00,000 [₹3,00,000 @ 15%] 45,000	
₹ 12,00,001 - ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	
Above ₹ 15,00,000 @30% = 4,27,980	5,77,980
	6,16,980
Add: Health and education cess@4%	24,679
Total tax liability	6,41,659
Tax liability (rounded off)	6,41,660
Since tax liability as per section 115BAC is higher than the tax liability under normal provisions of the Act, it is beneficial for Mr. Rakesh not to exercise option under section 115BAC.	

Question 27

From the following information provided by Mr. Suresh, aged 43 years and a wholesale dealer, for the A.Y. 2021-22, you are required to compute the tax payable by him.

Trading and Profit and Loss Account of Mr. Suresh

Particulars	Amount in Rs.	Particulars	Amount in Rs.
To Opening Stock	24,21,000	By Sales	2,62,50,100
To Purchases	2,06,00,500	By Closing stock	52,00,100
To Direct expenses	4,12,040		
To Freight inward	2,65,000		
To Gross Profit c/d	77,51,660		
	3,14,50,200		3,14,50,200
To Salaries and wages	17,15,000	By Gross Profit b/d	77,51,660
To General expenses	3,65,000	By dividend from Indian companies (gross)	17,20,000
To Rates and taxes	2,40,000	By Interest received on FDs (Net of tax) [FD made on 1.8.2020]	1,11,000
To Interest paid on	3,845	By Rent received	7,20,000

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late filing of GST			
To Income-tax paid for FY 2019-20	3,45,000	By Income-tax Refund	19,000
To Interest paid to NBFC	1,15,000		
To Depreciation	1,82,000		
To Net Profit	73,55,815		
	1,03,21,660		1,03,21,660

The following additional information is provided by him:

- Closing stock of previous year 2020-21 was undervalued by Rs. 55,000.
- Rates and taxes include Rs. 1,000 paid towards late filing of his Income-tax return for Assessment Year 2020-21 under section 234F of Income-tax Act.
- Salaries include Rs. 30,000 paid on single day by way of cash to his accountant.
- Interest paid on loan of Rs. 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of Rs. 2 lakhs was used for personal purpose and the balance was used for business purpose. No TDS was deducted while paying the interest on loan.
- An amount of Rs. 35,000 was paid by cheque during the year towards health insurance policy covering himself, his spouse and his children.
- General expenses include Advertisement expense of Rs. 25,000 paid by cheque towards an advertisement in a souvenir published by local political party.
- Income-tax refund includes Rs. 2,500 towards interest.
- Depreciation charged is as per Income-tax Rules is Rs. 2,20,000
- Advance Tax paid during the year is Rs. 9 lakhs.
- TDS has been deducted on interest received on FD.
- Turnover for the year ending 31.03.2020 was Rs. 2.58 crores.(MTP 14 Marks,Nov'21) (Same concepts different figures MTP 14 Marks Mar'22)

Answer 27

Computation of Total Income of Mr. Suresh for the A.Y.2021-22

Particulars	Rs.	Rs.	Rs.
Income from house property			
Annual value (rent received has been taken as annual value, due to absence of information relating to expected rent in the Question)		7,20,000	
Less: Deduction u/s 24(a)			
30% of Annual Value		2,16,000	5,04,000
Profits and gains of business or profession			
Net profit as per profit and loss account		73,55,815	
Add: Expenses/Payments debited to profit and loss account but not allowed			
- Depreciation as per books of account	1,82,000		
Fee for late filing of income-tax return for A.Y. 2020- 21 – disallowed	1,000		
Salary paid to an accountant in cash exceeding Rs. 10,000 – disallowed under section 40A(3)	30,000		
- Interest paid to NBFC on loan which is used for personal purposes (Rs. 1,15,000 x 2,00,000/ 10,00,000) – not allowed as per section 37	23,000		

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- Interest paid to NBFC on which tax is not deducted attracts disallowance @30% of Rs. 92,000 under section 40(a)(ia) [Since Mr. Suresh's turnover for the immediately preceding previous year i.e., P.Y. 2019-20 exceeds Rs. 1 crore, he is required to deduct tax at source. Disallowance@30% of interest is attracted for non-deduction of tax at source]	27,600		
- Income-tax paid for F.Y. 2019-20	3,45,000		
- Interest paid on late filing of GST, allowed, since it is not for infraction of law but is compensatory in nature.	Nil		
- Advertisement expenses towards an advertisement in a souvenir published by local political party [under section 37(2B)]	25,000	6,33,600	
Add: Undervaluation of Closing stock		55,000	
Less: Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account		80,44,415	
- Dividend from Indian companies (taxable under the head "Income from other sources")	17,20,000		
- Interest on FDs (Net of taxes) (Gross income taxable under the head "Income from other sources")	1,11,000		
- Rent received (taxable under the head "Income from house property")	7,20,000		
- Income-tax refund	19,000	25,70,000	
		54,74,415	
Less: Depreciation as per Income-tax Rules		2,20,000	52,54,415
Income from Other Sources			
Dividend from Indian companies		17,20,000	
Interest on fixed deposits (Rs. 1,11,000 x 100/92.5, since tax was deducted at source @7.5%)		1,20,000	
Interest on income-tax refund		2,500	18,42,500
Gross Total Income			76,00,915
Less: Deduction under Chapter VI-A			
Section 80D			
Health insurance premium paid for self, spouse and his children allowable as deduction to the extent Rs. 25000		25,000	
Section 80GGC			
Expenditure towards advertisement in a souvenir published by local political party not allowable as deduction		Nil	25,000
Total Income			75,75,915
Total Income (Rounded Off)			75,75,920

Computation of tax payable by Mr. Suresh for the A.Y.2021-22

Particulars	Rs.
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Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	
Rs. 5,00,001 – Rs.10,00,000 [i.e., Rs. 5,00,000@20%]	1,00,000	
Rs. 10,00,001 above [i.e., Rs. 65,75,920 @30%]	19,72,776	20,85,276
		20,85,276
Add: Surcharge @10%, since total income exceeds Rs. 50,00,000		2,08,528
		22,93,804
Add: Health and Education cess@4%		91,752
Tax Liability		23,85,556
Less: Advance tax		9,00,000
Tax deducted at source on interest on FDs under section 194A		9,000
Tax payable		14,76,556
Tax payable (rounded off)		14,76,560

Computation of tax liability of Mr. Suresh as per section 115BAC for A.Y.2021-22

Particulars	Rs.
Gross total Income as per regular provisions of the Act	76,00,915
Less: Deduction u/s 10AA/ Deduction under Chapter VI-A [No deduction under section 10AA or under Chapter VI-A is allowed]	-
Total Income as per section 115BAC	76,00,915
Total Income as per section 115BAC (rounded off)	76,00,920
Tax on total income of 76,00,920	
Upto ₹ 2,50,000 ₹ 3,00,000 Nil	
₹ ₹ 3,00,000 – ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	
₹ 6,00,001 – ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	
₹ 9,00,001 – ₹ 12,00,000 [₹3,00,000 @ 15%] 45,000	
₹ 12,00,001 – ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	
Above ₹ 15,00,000 @30% (61,00,920 @ 30%)	19,80,276
	19,80,276
Add: Surcharge @10%, since total income exceeds Rs. 50,00,000	1,98,028
	21,78,304
Add: Health and education cess@4%	87,132
Total tax liability	22,65,436
Less: Advance tax	9,00,000
Tax deducted at source on interest on FDs under section 194A	9,000
Tax payable	13,56,436
Tax payable (rounded off)	13,56,440
Since tax liability as per section 115BAC is lower than the tax liability under normal provisions of the Act, it is beneficial for Mr. Suresh to exercise option under section 115BAC. He has to exercise this option on or before the due date of furnishing the return of income. Further, he is having income from business or profession during the P.Y.2020-21, if he opts for section 115BAC for this previous year, the said provisions would apply for subsequent	

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Paper 3 - Taxation

assessment years as well.

Question 28

Deepak is retired Government Officer, aged 65 years, resides in Hyderabad, derived following income:

	Rs.
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

Compute the total income of Mr. Deepak for the assessment year 2021 -22 from the following particulars:

- Life insurance premium paid by cheque Rs. 22,500 for insurance of his life. The insurance policy was taken on 08-09-2015 and the sum assured is Rs. 2,00,000.
- Premium of Rs. 26,000 paid by cheque for health insurance of self and his wife.
- Paid interest of Rs. 6,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of Rs. 15,000 donated in cash to an institution approved for the purpose of section 80G for promoting family planning. (MTP 3 Marks, April'21)

Answer 28

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

Particulars	Rs.	Rs.
Income under the head "Salaries"		
Pension	6,60,000	
Less: Standard deduction u/s 16(ia) Lower of Rs. 50,000 or actual salary/pension	50,000	6,10,000
Income from Other Sources		
Interest from bank on fixed deposit (Gross)		55,000
Gross Total Income		6,65,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C LIC premium of Rs. 22,500 (restricted to 10% of Rs. 2,00,000, being the sum assured, as the policy is taken after 31.3.2012)	20,000	
Deduction under section 80D Premium for health insurance for self and his wife paid by cheque, allowed upto Rs. 50,000 since Mr. Deepak is a senior citizen	26,000	
Deduction under section 80E Interest on loan taken from bank for MBA course pursued by his daughter	6,500	
Deduction under section 80G Donation to an approved institution for promoting family planning not allowed since the amount exceeding Rs. 2,000 is paid in cash	Nil	
Deduction under section 80TTB Interest on fixed deposit with bank allowable as deduction upto Rs. 50,000, since Mr. Deepak is a senior citizen	50,000	1,02,500

Paper 3 - Taxation

Total Income	5,62,500
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Question 29

From the following information provided by Mr. Raj, aged 42 years working as a manager in XYZ Limited, for the year ended 31.3.2020, you are required to compute his total income and tax payable for the A.Y. 2020-21.

Basic salary ₹ 25,000 p.m.

DA (50% of it is meant for retirement benefits) 50% Basic Pay

Own contribution to Recognized Provident Fund (R.P.F.) ₹ 30,000

Employer's contribution to R.P.F. 20% of basic salary

Interest credited in the R.P.F. account@15% p.a., ₹ 15,000

Arrears of rent received from XYZ Limited ₹ 75,000

Received interest ₹ 10,000 from Axis Bank Savings account during the year, and interest of ₹ 12,040 (gross) from the debentures of M/s. Coal India Ltd.

He made payment through cheque ₹ 15,370 towards premium on Life insurance policies and ₹ 22,500 for Mediclaim Insurance Policy for his major dependent daughter.

He had contributed ₹ 1,196 pm towards Atal Pension Yojana and ₹ 5,000 pm towards Sukanya Sarnridhi account.

XYZ Limited has taken residential house of Mr. Raj as Company's guest house and later purchased from him in the year 2018 at market value for ₹ 75 lakhs. Purchase cost was only ₹ 10 lakhs in April, 2004.

During August, 2019, Mr. Raj had sold his gold chain and a diamond ring for ₹ 3,40,000 which he had purchased in April, 2004 for ₹ 1,13,000.

Donation of ₹ 11,000 to Prime Minister's National Relief Fund were given during the year by way of cheque.

(CII for 2004-05:113, 2018-19: 280, and 2019-20: 289)(MTP 14 Marks, Oct'20)

Answer 29

Computation of Total Income and tax payable by Mr. Raj for the A.Y.2020-21

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 25,000 x 12)		3,00,000
Dearness Allowance (₹ 3,00,000 x 50%)		1,50,000
Employer's contribution to recognized provident fund:		
Actual contribution [20% of ₹ 3,00,000]	60,000	
Less: Exempt [12% of ₹ 3,75,000 (basic salary + 50% of dearness allowance, which forms part of retirement benefits)]	45,000	15,000
Interest credited in recognized provident fund account@15% p.a.	15,000	
Less: Exempt up to 9.5% p.a.	9,500	5,500
Income from house property		4,70,500
Arrears of rent [Taxable under section 25A, even if Mr. Raj is no longer the owner of house property]	75,000	
Less: 30% of arrears of rent	22,500	52,500
Capital gain on sale of guest house: As the sale was made in the year 2018, the capital gain does not relate to assessment year 2020-21.		Nil
Capital Gain on jewellery [Long term, since the capital assets are held for more than 36 months]		
Full value of consideration	3,40,000	
Less: Indexed cost of acquisition [₹ 1,13,000 x 289/113]	2,89,000	51,000

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Income from Other Sources			
Interest from savings bank account		10,000	
Interest on debentures		<u>12,040</u>	<u>22,040</u>
Gross total Income			5,96,040
Less: Deductions under Chapter VI-A			
Section 80C			
Own contribution to RPF	30,000		
LIC premium [It is assumed that premium does not exceed 10%/20% of sum assured, as the case may be]	15,370		
Deposit in Sukanya Samridhi Scheme [₹ 5,000 x 12]	<u>60,000</u>	1,05,370	
Section 80CCD(1B)			
Contribution to Atal Pension Yojana, a notified pension scheme		14,352	
Section 80D - Mediclaim Insurance for major dependent daughter		22,500	
Section 80G - Donation to PM National Relief Fund [100%]		11,000	
Section 80TTA - Interest on savings bank account (allowed in full upto ₹ 10,000)		<u>10,000</u>	<u>1,63,222</u>
Total Income			4,32,818
Total Income (rounded off)			4,32,820
Tax Liability			
Tax on Long-term Capital Gains @20% of ₹ 51,000		10,200	
Tax on balance income of ₹ 3,81,820		<u>6,591</u>	16,791
Less: Rebate under section 87A would be lower of ₹12,500 or tax liability, since the total income does not exceed ₹ 5,00,000			<u>12,500</u>
			4,291
Add: Health and Education cess @4%			<u>172</u>
Tax liability			4,463
Less: TDS on interest on debenture			<u>1,204</u>
Tax payable			3,259
Tax payable (Rounded off)			3,260

Question 30

Mr. Ashwin, a resident individual aged 61, furnishes the following information pertaining to the year ended 31.3.2019:

- (iii) He is a working partner in ASC & Co. He has received the following amounts from the firm: Interest on capital at 15% : Rs.3,00,000
Salary as working partner (at 1% of firm's sales) (allowed fully to the firm) : Rs.90,000
- (iv) He is engaged in a business of manufacturing. The Profit and Loss account pertaining to this proprietary business (summarised form) is as under:

Particulars	Rs.	Particulars	Rs.
To Salaries	1,20,000	By Gross profit	12,45,500
To Bonus	48,000	By Interest on Bank FD	49,500
To Car expenses	50,000	(Net of TDS)	
To Machinery repairs	2,34,000	By Agricultural income	60,000
To Advance tax	70,000	By Pension from LIC	

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To Depreciation on:		Jeevan Dhara	24,000
- Car	3,00,000		
- Machinery	1,25,000		
To Net profit	4,32,000		
	13,79,000		13,79,000

Details of assets:

Particulars	Rs.
Opening WDV of assets are as under: Car	3,00,000
Machinery (Used during the year for 179 days)	6,50,000
Additions to machinery:	
Purchased on 15.9.2018 by cash in single payment	2,00,000
Purchased on 12.12.2018 by account payee cheque	3,00,000
Second hand machinery purchased on 30.4.2018 by bearer cheque in single payment	1,25,000

(All assets added during the year were put to use immediately after purchase)
One-fifth of the car expenses are towards estimated personal use of the assessee.
Salary includes Rs. 15,000 paid by way of a single cash payment to manager.

- (v) In February, 2016, he had sold a house at Mumbai. Arrears of rent relating to this house amounting to Rs.75,000 was received in March, 2019.
- (vi) Details of his Savings and Investments are as under:

Particulars	Rs.
Life insurance premium for policy in the name of his major son employed in a multinational company, at a salary of Rs.10 lakhs p.a. (Sum assured Rs.2,00,000) (Policy taken on 1.07.2013)	30,000
Contribution to PPF	70,000
Medical Insurance premium for his mother aged 79, who is not dependent on him	52,000

You are required to compute the total income and tax liability of Mr. Ashwin for the assessment year 2019-20. (MTP 14 Marks, April'19, RTP May '18)

Answer 30

Computation of total income of Mr. Ashwin for the A.Y. 2019-20

Particulars		Rs.	Rs.
Income from house property			
Arrears of rent received in respect of the Bangalore house			
taxable under section 25A [Note 1]		75,000	
Less: Deduction @ 30%		22,500	52,500
Profits and gains of business or profession			
(a) Own business [Note 3]			6,32,500
(b) Income from partnership firm [Note 2]			
Interest on capital		2,40,000	
[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			

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been			
fully allowed as deduction in the hands of the firm)		90,000	3,30,000
Income from other sources			
(a) LIC Jeevan Dhara pension		24,000	
(b) Interest from bank FD (gross)		55,000	79,000
Gross Total Income			10,94,000
Less: Deductions under Chapter VIA			
Section 80C			
Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assessee. 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	70,000	90,000	
Section 80D			
Mediclaime premium for mother, a senior citizen (qualifies for deduction, even though the mother is not dependent on the assessee, subject to a maximum of Rs.50,000)	52,000	50,000	
Section 80TTB			
Interest on bank FD (subject to a maximum of Rs.50,000)	55,000	50,000	1,90,000
Total Income			9,04,000

Computation of tax liability of Mr. Ashwin for the A.Y. 2019-20

Particulars	Rs.
Tax on Agricultural income plus non-agricultural income i.e., Rs.9,64,000	1,02,800
Less: Tax on agricultural income plus basic exemption limit i.e., Rs.3,60,000	3,000
	99,800
Add: Health and education cess @4%	3,992
Tax liability	1,03,792
Less: TDS	5,000
Less: Advance Tax	70,000
Tax Payable	28,792
Tax Payable (rounded off)	28,790

Notes:

- (1) As per section 25A, any arrears of rent received will be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assessee is the owner of the house property.
- (2) The income by way of interest on capital and salary of Mr. Ashwin from the firm, ASC & 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.3,30,000 [i.e., Rs.90,000 (salary) + Rs.2,40,000 (interest@12%)] should be included in his business income.
- (3) Computation of income from own business

Particulars	Rs.	Rs.
Net profit as per profit and loss account		4,32,000
Less: Items credited to profit and loss account not treated as business income		
Interest on bank FD (Net of TDS)	49,500	

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Agricultural income	60,000	
Pension from LIC Jeevan Dhara	24,000	1,33,500
		2,98,500
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance tax	70,000	
Depreciation:		
- Car	3,00,000	
- Machinery	1,25,000	
Car expenses disallowed for personal use (Rs.50,000 x 1/5)	10,000	
Salary to manager disallowed under section 40A(3) since it is paid in cash and the same exceeds Rs.10,000	15,000	5,20,000
		8,18,500
Less: Depreciation (See Working Note below)		1,86,000
Income from business		6,32,500

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	
Less: 1/5th for personal use	9,000	
Depreciation on Car allowable as deduction		36,000
On Machinery:		
Opening WDV 6,50,000		
Additions during the year (used for more than 180 days)		
- New Machinery purchased on 15.9.18 2,00,000		
- Second hand machinery purchased on 30.4.18 1,25,000		
Additions during the year (used for less than 180 days) 3,00,000		
Normal Depreciation		
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 30.4.2018 and on new machinery purchased on 15.9.2018 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	22,500	

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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	30,000	
Total permissible depreciation on machinery (A) + (B)		1,50,000
Depreciation allowable under section 32		1,86,000

Question 31

Mrs. Harsha purchased a land at a cost of Rs.45 lakhs in the financial year 2007-08 and held the same as her capital asset till 31st March, 2017. She started her real estate business on 1st April, 2017 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was Rs.225 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is Rs.15 lakhs. Construction was completed in January, 2019. She sold 10 flats at Rs.40 lakhs per flat in 20th March, 2019. The remaining 5 flats were held in stock as on 31st March, 2019.

She invested Rs.50 lakhs in bonds issued by National Highways Authority of India on 31 st March, 2019 and another Rs.50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2019.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harsha arising from the above transactions for Assessment Year 2019 -20 indicating clearly the reasons for treatment for each item.[Cost Inflation Index: FY 2007-08: 129; FY 2017-18: 272; FY 2018-19: 280].(MTP 7 Marks, March'19)

Answer 31

Computation of capital gains and business income of Harsha for A.Y. 2019 - 20

Particulars	Rs.
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,25,00,000
Less: Indexed cost of acquisition [Rs.45,00,000 × 272/129]	94,88,372
	1,30,11,628
Proportionate capital gains arising during A.Y.2019-20 [Rs.1,30,11,628 × 2/3]	86,74,419
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2019-20	36,74,419
Business Income	
Sale price of flats [10 × Rs.40 lakhs]	4,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [Rs.225 lacs × 2/3]	1,50,00,000
Cost of construction of flats [10 × Rs.15 lakhs]	1,50,00,000
Business income chargeable to tax for A.Y.2019-20	1,00,00,000

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under

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section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade.

- (2) However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade and not up to the year of sale of stock-in-trade.
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2018-19, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2019-20.

- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock -in- trade.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be Rs.50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year. Therefore, even though investment of Rs.50 lakhs has been made in bonds of NHAI during the P.Y.2018-19 and investment of Rs.50 lakhs has been made in bonds of RECL during the P.Y.2019-20, both within the stipulated six-month period, the maximum deduction allowable for A.Y.2019-20, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2018-19, is only Rs.50 lakhs.

Question 32

Dr. K.P. Singh, a resident individual aged 45 years, furnishes you the following information:

Income and Expenditure Account for the year ended 31st March 2018

Particulars	Rs.	Particulars	Rs.
To Medicines consumed	42,42,000	By Fee receipts	59,47,500
To Staff salary	11,65,000	By Rent	27,000
To Hospital consumables	47,500	By Dividend from Indian companies	9,000
To Rent paid	60,000		
To Administrative expenses	1,23,000		
To Net Income	3,46,000		
	59,83,500		59,83,500

- (i) **Rent paid includes rent for his residential accommodation of Rs. 40,000 (paid by cheque) at Bangalore.**

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- (ii) **Hospital equipments (eligible for depreciation @15%) 01.04.2017 Opening WDV Rs.5,00,000
07.12.2017 Acquire by A/c payee cheque (Cost) Rs.2,00,000**
- (iii) **Medicines consumed include medicines (cost) Rs. 10,000 used for Dr. K.P. Singh's family.**
- (iv) **Rent received – relates to a property situated at Mumbai (Gross Annual Value). The municipal tax of Rs. 2,000 paid in November, 2017 has been included in the “administrative expenses”.**
- (v) **He received Rs. 5,000 per month as salary from Full Cure Hospital. This has not been included in the “fee receipts” credited to income and expenditure account.**
- (vi) **He sold a vacant site in July, 2017 for Rs.7,50,000. It was inherited by him from his father in July, 2004. The site was acquired by his father in December, 1990 for Rs.1,50,000. Fair market value of vacant site on 01.04.2001 is Rs. 2,50,000 (Cost inflation index for F.Y 2001-02: 100; 2004-05: 113 and 2017-18:272)
You are required to compute the total income and tax payable by Dr. K.P. Singh for the Assessment Year 2018-19.(MTP 10 Marks,Oct'18)**

Answer 32

Computation of total income of Dr. K.P. Singh for the previous year ended 31.03.2018

Particulars	Rs.	Rs.
Income from Salaries		
Salary received @ Rs.5,000 per month	60,000	
Less: Standard deduction of lower of salary or Rs. 50,000 (as per amendment)	(50,000)	10,000
Income from house property		
Gross Annual Value (Rent is taken as GAV in the absence of any other information)	27,000	
Less: Municipal tax	2,000	
Net Annual Value	25,000	
Less: Deduction under section 24 @30%	7,500	17,500
Income from business or profession		
Net income as per Income & Expenditure Account	3,46,000	
Add: Rent paid for residence	40,000	
Medicines consumed – personal use	10,000	
Municipal tax relating to let out property included in administrative expenses – disallowed	2,000	
	3,98,000	
Less: Depreciation (Note 2)	90,000	
Rent credited to income & expenditure account	27,000	
Dividend from Indian companies	9,000	2,72,000
Capital Gains (Long term capital gains since held form more than 24 months)		
Sale consideration	7,50,000	
Less: Indexed cost acquisition (Rs.2,50,000 x 272/113) (Note 3)	6,01,770	1,48,230
Income from other sources		
Dividend from Indian companies (as per amendment it is taxable in the hands of shareholder)	9,000	
Less: Exempt under section 10(34)	9,000	9,000
Gross Total income		4,56,730
Less: Deduction under Chapter VIA		
Under section 80GG, rent paid would be allowable as a		

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deduction to the extent of the least of the following		
(i) 25% of total income = 25% of Rs.3,08,500 (See Note 1)	77,125	
(ii) Excess of rent paid over 10% of total income (Rs.40,000 – Rs.30,850)	9,150	
(iii) Rs.5,000 per month	60,000	
Least of the above		9,150
Total Income		4,47,580

Computation of tax liability of Dr. K.P. Singh for the Assessment Year 2018-19

Particulars	Rs.
Tax on long term capital gains 20% of Rs.1,48,230	29,646
Tax on other income of Rs.2,99,350 [Rs. 4,47,580 – Rs. 1,48,230]	2,468
	32,114
Add: EC & HSEC @ 4% (as per amendment)	1285
Tax liability	33,399
Rebate u/s 87A (as per amendment maximum upto 12500 is exempt)	(12,500)
Tax liability	20,899

Notes:

- Deduction under section 80GG is to be made from Gross Total Income. Gross Total Income as defined under section 80B(5) means the total income computed in accordance with the provisions of this Act, before making any deduction under Chapter VI-A. Under section 112(2), Long term capital gains have to be reduced from Gross Total Income and Chapter VI -A deductions should be allowed as if the Gross Total income so reduced were the Gross Total Income of the assessee. Therefore, in this case, for the purpose of allowing deduction u/s 80GG, Gross Total Income = **Rs.4,56,730 – Rs.1,48,230 = Rs.3,08,500**
- Depreciation on plant & machinery

	Rs.
On opening WDV of Rs.5,00,000 @15%	75,000
On equipment acquired Rs.2,00,000 @7.5% (50% thereon, since acquired in December, 2017)	15,000
	90,000

- Since the property was acquired by Dr. K.P. Singh through inheritance, the cost of acquisition to him would be the cost of acquisition to the previous owner. As per section 55(2)(b), Cost of acquisition to the previous owner would be the higher of cost of acquisition to the previous owner i.e., Rs.1,50,000 or Fair Market Value of the capital asset on 01.04.2001 i.e., Rs. 2,50,000. However, indexation will be from the year in which the assessee (i.e., Dr. K.P. Singh in this case) first held the asset i.e. F.Y. 2004-05.

Alternative view: In the case of CIT v. Manjula J. Shah 16 Taxman 42 (Bom.), the Bombay High Court held that the indexed cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset. As per this view, this indexed cost of acquisition of the vacant site would be Rs.6,80,000.

Question 33

Dr. Kumar is running a clinic in Delhi. His Income and Expenditure account for the financial year ended 31-03-2018 is given below:

Expenditure	Amount (Rs.)	Income	Amount (Rs.)

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To Staff salary	4,30,000	By Fee receipts	12,63,600
To Consumables	14,750	By Dividend from an Indian Company	15,000
To Medicine consumed	3,69,800	By Winning from lotteries (Net of TDS)	28,000
To Depreciation	91,000	By Income-tax refund	2,750
To Administrative expenses	1,51,000	By Honorarium for lectures at seminars	24,000
To Rent of clinic	20,000		
To Donation to Prime Minister's National Children's Fund	5,000		
To Excess of income over expenditure	2,51,800		
Total	13,33,350	Total	13,33,350

Other Information:

- (1) Depreciation in respect of all assets has been computed at Rs. 50,000 as per Income-tax Rules, 1962
- (2) Medicines consumed include cost of medicine for self and family of Rs. 25,000 and for treating poor patients of Rs. 24,000 from whom he did not charge any fee either
- (3) Salary includes Rs. 15,000 paid in cash to a computer specialist who computerized his patient's data in October, 2017.
- (4) Donation to Prime Minister's National Children's Fund has been made by way of a crossed cheque.
- (5) He has paid a sum of Rs. 25,000 for Life Insurance Policy (Sum assured Rs. 2,00,000) of himself, which was taken on 1-07-2012.
- (6) He has sold a land in August, 2017 for Rs. 12,00,000, the stamp duty value of which was Rs. 14,00,000 on that date. The land was acquired by him in May, 2001 for Rs. 4,00,000.
- (7) He has paid Rs. 4,000 for purchase of lottery tickets, which has not been debited to Income and Expenditure account.
- (8) He also contributed Rs. 1,20,000 towards Public Provident Fund.
- (9) Dr. Kumar also paid interest of Rs. 10,000 on loan taken for higher education of his daughter.

You are required to compute the total income and tax payable by Dr. Kumar for the Assessment Year 2018-19. Cost Inflation Index: F.Y. 2001-2002 - 100, F.Y. 2017-18 - 272(MTP 10 Marks, Aug'18)

Answer 33

Computation of Total income of Dr. Kumar for the Assessment Year 2018-19

Particulars	Rs.
Profits and gains of business or profession (Working Note 1)	2,68,050
Capital Gains (Working Note 2)	3,12,000
Income from other sources (Working Note 3)	79,000
Gross Total Income	6,59,050
Less: Deduction under Chapter VI-A (Working Note 4)	1,55,000
Total Income	5,04,050

Computation of tax liability of Dr. Kumar for the Assessment Year 2018-19

Particulars	Rs.

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Tax on winnings from lotteries [Rs. 40,000 @ 30%]	12,000
Tax on long term capital gains 20% of Rs. 2,14,050 , being Rs. 3,12,000 – unexhausted basic exemption limit of Rs. 97,950 [i.e., Rs. 2,50,000 – (Rs. 2,68,050 + Rs. 39,000 – Rs. 1,55,000)] (As Tax on Balance Income)	42,810
	54,810
Add: Education cess@2% and secondary and higher education cess@1%	1,554
Add: EC & HSEC @ 4% (as per amendment)	2,193
Total tax liability	57,003
Less: Tax deducted at source	12,000
Net tax liability	45,003
Net tax liability (rounded off)	45,000

Working Notes:

1. Computation of income under the head “Profits and gains of business or profession”

Particulars	Rs.	Rs.
Net income as per Income and Expenditure Account		2,51,800
Add: Expenditure debited to Income and Expenditure Account but to be disallowed		
Depreciation (Rs. 91,000 – Rs. 50,000)	41,000	
Medicine consumed for self and family (disallowed under section 37, being expenditure of personal nature) Medicine consumed for treating poor patients from whom fees was not charged is an allowable expense, since the same is incurred in the course of carrying on medical profession.	25,000	
Cash payment of salary disallowed under section 40A(3), since the same is in excess of Rs. 10,000	15,000	
Donation to Prime Minister’s National Children’s Fund (not allowable as deduction while computing income from profession)	5,000	86,000
Less: Income credited to Income and Expenditure Account but not chargeable to income-tax or not chargeable under this head		3,37,800
Dividend from Indian company	15,000	
Winning from lotteries (taxable under the head “Income from other sources”)	28,000	
Income-tax refund (Not taxable)	2,750	
Honorarium for giving lectures at seminars (taxable under the head “Income from other sources”)	24,000	69,750
Income from profession		2,68,050

2. Computation of income under the head “Capital Gains”

Particulars	Rs.	Rs.
Sale consideration	12,00,000	
Valuation as per Stamp Valuation Authority (Value to be taken is the higher of the actual sale consideration or valuation adopted for stamp duty purpose as per section 50C) (As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)	14,00,000	
Full value of consideration		14,00,000

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Less: Indexed cost of acquisition (Rs. 4,00,000 x 272/100)		10,88,000
Long term Capital gains (Since Land was held from more than 24 months)		3,12,000

3. Computation of income under the head "Income from Other Sources"

Particulars	Rs.	Rs.
Dividend from Indian company [Exempt u/s 10(34)] (taxable in hands of shareholder as per amendment)		15,000
Honorarium for giving lectures at seminars		24,000
Winning from lotteries (Net)	28,000	
Add: TDS @30% (Rs. 28,000 x 30/70)	12,000	40,000
Income from other sources		79,000

Note: As per section 58(4), no expense or deduction is allowable in respect of winning from lotteries.

4. Computation of deduction under Chapter VI-A

Section	Particulars	Rs.
80C	Life Insurance Premium [Rs. 25,000 restricted to 10% of Rs. 2,00,000 (i.e. sum assured) since the policy is issued on or after 1.4.2012]	20,000
	Contribution to Public Provident Fund	1,20,000
		1,40,000
80E	Interest on loan taken for higher education of daughter	10,000
80G	Donation to Prime Minister's National Children's Fund [100% deduction allowable, since it is made by a mode other than cash]	5,000
	Total deduction under Chapter VI-A	1,55,000

Question 34

Mr. Rajan, aged 54 years, engaged in a business as sole proprietor. He is resident and ordinarily resident for the previous year 2017-18. The Profit & Loss A/c for the year ending 31-03-2018 is given below:

Particulars	₹	Particulars	₹
Salary	36,000	Gross Profit	5,60,900
Fire Insurance	28,500	Interest on Debentures	6,750
Income-tax	30,000	Cash Gift	51,000
Sundry Expenses	56,000		
Advertisement	36,000		
Household expenses	50,000		
Depreciation	29,800		
Contribution to IIT Mumbai for an approved scientific research programme	1,00,000		
Municipal Taxes paid for house property	36,000		
Investment in NSC	10,000		
Printing & Stationery	12,000		
Interest	24,000		
Rent paid	60,000		
Net Profit	1,10,350		
	6,18,650		6,18,650

Mr. Rajan also furnishes the following additional information:

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Paper 3 - Taxation

- (i) Cash gift was received on the occasion of his son's marriage from his maternal uncle.
- (ii) Interest on debentures is net of taxes. Debentures are listed on recognised stock exchange.
- (iii) He owns a house property in Nagpur. 50% of the property is used by him for his own business and 50% let out for residential purpose.
- (iv) Rent received from 50% let out portion during the year was ₹ 1,50,000.
- (v) Fire insurance includes ₹ 15,000 paid for house property owned by him.
- (vi) Depreciation is computed as per the Income-tax Rules, 1962.
- (vii) He has sold a vacant land in July, 2017 for ₹ 1,50,000. The State Stamp Value of the site was
- (viii) ₹ 2,80,000. The land was acquired in August 2015 for ₹ 1,10,000 from his friend.
- (ix) Rent paid includes ₹ 50,000 paid towards rent for his residence in Nagpur and ₹ 10,000 for hiring a Maruti Van for business purpose.
- (x) Municipal tax includes ₹ 10,000 paid as tenant.
- (xi) Paid premium on life insurance policy taken for his handicapped daughter ₹ 50,000 (suffering from disability mentioned in section 80U). The policy was taken on 01-04-2016 and the minimum sum assured is ₹ 3,00,000.
- (xii) Interest shown in the Profit & Loss A/c, paid on loan borrowed for his own business purposes. It includes ₹ 10,000 payable to a non-resident on which tax has not been deducted.
- (xiii) Compute the total income of Mr. Rajan for the Assessment Year 2018-19. (MTP 10Marks, March'18)

Answer 34

Computation of total income of Mr. Rajan for A.Y. 2018-19

Particulars	Working Note Nos.	₹
Income from house property	I.	95,900
Profit and gains of business or profession	II.	2,23,100
Long term capital gains	III.	1,70,000
Income from other sources	IV.	7,500
Gross Total Income		4,56,500
Less: Deduction under Chapter VI-A	V.	55,000
Total Income		4,01,500

Working Notes:

I. Computation of income under the head "Income from House Property"

Particulars	₹	₹
Let-out portion - 50%		
Gross Annual Value (Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent)		1,50,000
Less: Municipal taxes paid in respect of let out portion [50% of ₹ 26,000 (₹ 36,000 - ₹ 10,000, being municipal taxes paid as tenant)]		13,000
Net Annual Value (NAV)		1,37,000
Less: Deduction under section 24@30% of NAV		41,100
Income from House Property		95,900

II. Computation of income under the head "Profits and gains of business or profession"

Particulars	₹	₹
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Net profit as per Profit and Loss account		1,10,350
Add: Expenses debited to profit and loss account but not allowable or to be considered separately		
(i) Fire Insurance [50% of ₹ 15,000, disallowed since relating to let- out portions of house property owned by him]	7,500	
(ii) Income-tax [disallowed as per section 40(a)(ii)]	30,000	
(iii) Household expenses [Personal expenses are disallowed by virtue of section 37]	50,000	
(iv) Contribution to IIT, Mumbai for approved scientific research programme to be considered separately	1,00,000	
(v) Municipal Taxes paid as tenant [Personal expenses are disallowed by virtue of section 37]	10,000	
(v) Municipal Taxes paid in respect of let-out portions [50% of ₹ 26,000 (₹ 36,000 - ₹ 10,000, being municipal taxes paid as a tenant) disallowed, since incurred for personal purposes]	13,000	
(vi) Investment in NSC (Deduction allowed under section 80C)	10,000	
(vii) Interest payable to a non-resident, as tax has not been deducted at source [Section 40(a)(i)]	10,000	
(viii) Rent paid for his residence [Personal expenses not allowed as deduction as per section 37]	50,000	
		2,80,500
		3,90,850
Less: Weighted deduction@150% for contribution to IIT, Mumbai for scientific research programme approved under section 35(2AA) [₹ 1,00,000 × 150%] Deduction reduced to 100 % as per amendment		1,50,000 1,00,000
Less: Income credited to Profit & Loss Account but not taxable under this head:		2,90,850
(i) Cash gifts	51,000	
(ii) Interest on debentures	6,750	57,750
Profits and gains from business and profession		2,33,100

III. Computation of income under the head "Capital Gains"

Particulars	₹	₹
Capital gains		
Actual Sale consideration	1,50,000	
Value adopted by Stamp Valuation Authority	2,80,000	
Gross Sale consideration		2,80,000
[In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C] (As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)		1,10,000
Less: Cost of acquisition		
Short term capital gain [Since vacant land is held by Mr. Rajan for not more than 24 months]		1,70,000

IV. Computation of income under the head "Income from other sources"

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Paper 3 - Taxation

Particulars	₹	₹
Cash gift received on the occasion of his son's marriage from his maternal uncle would not be taxable, since maternal uncle fall within the definition of relative.		Nil
Interest on debentures (gross) [₹ 6,750 × 100/90] (The rate of TDS under section 194A is 10%)		7,500
Income chargeable under this head		7,500

V. Computation of deduction under Chapter VI-A

Particulars	₹	₹
Deduction under section 80C		
Investment in NSC	10,000	
LIC Premium paid ₹ 50,000 [deduction restricted to 15% of ₹ 3,00,000, being the capital sum assured, since the policy was taken after 31.3.2013 to insure the life of his disabled daughter]	45,000	55,000
Deduction under section 80GG [Since Mr. Rajan is staying in a rented premise in Nagpur itself, he would not be eligible for deduction under section 80GG as he owns a house in Nagpur which he has let out.]		NIL
Deduction under Chapter VI-A		55,000

Question 35

You are required to compute the total income and tax liability of Mr. Neeraj for the A.Y. 2022-23 from the following information given by him for the year ended 31.3.2022. Mr. Neeraj, aged 61 years, a resident individual, engaged in a wholesale business of stationary products. He is also a partner in BAC & Co., a partnership firm.

Sl. No.	Particulars	₹	₹
(i)	Interest on capital received from BAC & Co., at 14% [in accordance with the partnership deed]		1,40,000
(ii)	Share of profit from the firm		44,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		49,500
(v)	Interest on saving bank account		13,300
(vi)	Income-tax refund received relating to assessment year 2021-22 including interest of ₹ 1,400		34,500
(vii)	Net profit from wholesale business		6,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop (For two half years; payment for one half year made on 12.7.2022 and for the other on 31.12.2022)	7,000	
	- Salary to manager by way of a single cash payment	22,000	
(viii)	The WDV of the assets (as on 1.4.2021) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	

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Paper 3 - Taxation

Upto ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 5,00,000 [i.e., ₹ 2,00,000@5%]	10,000
₹ 5,00,001 – ₹ 6,49,900 [i.e., ₹ 1,49,900@20%]	29,980
	39,980
Add: Health and Education cess@4%	1,599
Tax Liability	41,579
Tax payable (Rounded off)	41,580

Notes:

(1) Depreciation allowable under the Income-tax Rules, 1962

		Opening WDV/ Actual cost	Rate		Depreciation
Block 1	Computers	2,40,000	40%		96,000
	Computer printer	1,50,000	40%		60,000
Block 2	Motor Car	6,80,000	15%	51,000 [50% of 15% is allowable, since it is put to use for less than 180 days]	40,800
	Less: 20% disallowance for personal use			10,200	
					1,96,800

- (2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to ₹ 1,20,000 would be treated as the business income of Mr. Neeraj.
- (3) Deduction under Chapter VI-A

Particulars	₹	₹
Under section 80C		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
	1,30,000	
Since the maximum deduction under section 80C is ₹ 1,50,000, the entire sum of ₹ 1,30,000 would be allowed as deduction		1,30,000
Under section 80D		
Health insurance premium taken for himself is fully allowable as deduction, since he is a senior citizen		35,000
Under section 80G		
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
Under section 80TTB		
Interest on deposits in case of senior citizen, restricted to		50,000
Total deduction		2,65,000

Question 36

Mr. Vikas holds shares carrying 33% voting power in Kaya Ltd. Mrs. Rinky is working as accountant in Kaya Ltd. getting income from salary (computed) of Rs. 4,60,000 without any qualification in accountancy. Mr. Vikas also receives

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Paper 3 - Taxation

Rs. 35,000 as interest on securities. Mrs. Rinky owns a house property which she has let out. Rent received from tenants is Rs. 6,000 p.m. Compute the gross total income of Mr. Vikas and Mrs. Rinky for the A.Y. 2021-22. (MTP Nov 21 4 Marks)

Answer 36

Since Mrs. Rinky is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. Vikas

Particulars	Rs.
Income from Salary of Mrs. Rinky (Computed)	4,60,000
Income from other sources	
- Interest on securities	35,000
	4,95,000

Computation of gross total income of Mrs. Rinky

Particulars	Rs.	Rs.
Income from Salary [clubbed in the hands of Mr. Vikas]		Nil
Income from house property		
Gross Annual Value [Rs. 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 24		
- 30% of NAV i.e., 30% of Rs. 72,000	21,600	
- Interest on loan	-	50,400
Gross total income		50,400

Question 37

Mr. Kamal, a resident and ordinarily resident aged 58 years, is engaged in the business of manufacturing of steel. He is subject to tax audit under section 44AB of Income-tax Act, 1961. He has provided following information:

Profit & Loss account for the year ended 31st March, 2022

Particulars	(₹)	Particulars	(₹)
To Administrative expenses	6,45,000	By Gross Profit	88,45,000
To Salaries & wages	30,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	11,25,000	By Winning from lottery (Net of TDS @ 30%)	47,250
To Depreciation	9,25,500		
To Professional fees	4,05,000		
To Rent, rates & taxes	4,20,000		
To Travelling & conveyance	2,10,000		
To Net Profit	23,61,750		

Paper 3 - Taxation

Total	90,92,25 0	Total	90,92,2 50
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Explanatory information:

- (i) **Opening and closing stock of finished goods were undervalued by 10%. Opening stock of ₹ 3,30,000 and Closing stock of ₹ 4,38,000 was shown.**
- (ii) **Salaries & wages include following items:**
- (a) **Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD for an employee Mr. Ganesh who has withdrawn basic salary of ₹ 4,00,000 and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.**
- (b) **Some of the employees opted for retirement under the voluntary retirement scheme; a sum of ₹ 3,50,000 was paid to them on 1st January, 2022.**
- (iii) **Interest on loan includes interest paid @ 15% per annum on loan of ₹ 18,00,000 which was taken from State Bank of India on 01.07.2021 for purchase of new electric car of ₹ 20,00,000. The car is used for personal purpose.**
- (iv) **Depreciation allowable as per Income-tax Rules, 1962 is ₹ 5,50,000 but during the calculation of such depreciation following addition was not considered: Motor car purchased for ₹ 3,50,000 for supply of finished goods to dealers on 25-09-2021.**
- (v) **An asset was purchased for ₹ 7,00,000 on 17-11-2020 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 05-10-2021 for a consideration of ₹ 9,00,000.**

Other information:

A plot of Industrial land which was used by Mr. Kamal for business purpose for last 10 years was compulsorily acquired by Central Government on 07.10.2021. The compensation of ₹ 15,00,000 was received on 27.01.2022. Such property was purchased by him on 08.10.2006 for ₹ 2,50,000. He has purchased another plot of industrial land on 15.04.2022 for ₹ 7,00,000. Government has also paid ₹ 1,05,000 as interest on such compensation on 28.02.2022. Cost Inflation Indices: FY 2021-22: 317, FY 2006-07: 122

Compute the total income and tax liability of Mr. Kamal for the assessment year 2022-23 assuming that he has not opted for the provisions of section 115BAC.

(MTP 14 Mark Sep'22) (Same concept different chapters PYP 14 Marks Dec'21)

Answer 37

Computation of total income of Mr. Kamal for A.Y. 2022-23

	Particulars	₹	₹	₹
I.	Income from business or profession			
	Net Profit		23,61,750	
	Add: Items debited but not allowable/item not credited but taxable while computing business income			

Paper 3 - Taxation

	- Employer's contribution to NPS in excess of 10% of salary - Employer's contribution to the extent of 10% of salary i.e., basic salary plus dearness allowance forming part of salary would be allowed as deduction. Thus, excess contribution i.e., ₹ 32,000 [₹ 80,000, being 20% of ₹ 4,00,000 less ₹ 48,000 being 10% of ₹ 4,80,000 (₹ 4,00,000 + 20% of ₹ 4,00,000)] has to be added back.	32,000		
	- VRS expenditure - 1/5th of expenditure on voluntary retirement scheme is allowable over a period of five years u/s 35DDA. Since whole amount of expenditure is debited to Profit and Loss A/c, 4/5th has to be added back [₹ 3,50,000 x 4/5].	2,80,000		
	- Interest on loan taken for purchase of electric car used for personal purpose not allowable as deduction while computing business income as being expense of personal nature. Thus, ₹ 2,02,500 [₹ 18,00,000 x 15% x 9/12] has to be added back, since the same forms part of interest on loan debited to profit and loss account.	2,02,500		
	- Sale proceeds of asset acquired for conducting scientific research taxable as business income under section 41(3) in the year of sale to the extent of lower of ₹ 7,00,000 (being the deduction allowed u/s 35) and ₹ 9,00,000 being the excess of sale proceeds and deduction allowed u/s 35 i.e., (₹ 9,00,000 + ₹ 7,00,000) over the capital expenditure incurred of ₹ 7,00,000	7,00,000		
	- Undervaluation of stock [(₹ 4,38,000 - ₹ 3,30,000) x 10/90] Note: Alternatively, undervaluation of closing stock i.e., ₹ 48,667 can be added back and under valuation of opening stock i.e., ₹ 36,667 can be reduced from net profits.	12,000		
	- Depreciation as per books of A/c	9,25,500		
			21,52,00	

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Paper 3 - Taxation

			0	
			45,13,750	
	Less: Depreciation as per Income-tax Rules	5,50,000		
	Depreciation on Motor car purchased for supply of finished goods [₹ 3,50,000 x 15%]	52,500		
			6,02,500	
			39,11,250	
	Less: Items of income credited to profit and loss account but not taxable or taxable under any other head of income			
	-Profit on sale of asset of scientific research[Taxable under the head "Capital Gains"]	2,00,000		
	- Winning from lottery [Taxable under the head "Income from other sources"]	47,250		
			2,47,250	
				36,64,000
II.	Capital Gain			
	Short-term capital gains			
	Sale of asset acquired for conducting scientific research			
	Sales consideration	9,00,000		
	Less: Cost of acquisition	7,00,000		
	Short- term capital gain		2,00,000	
	Long-term capital gains			
	Compulsory acquisition of industrial plot by the Central Government taxable as per section 45(5)			
	Compensation received	15,00,000		
	Less: Indexed cost of acquisition [₹ 2,50,000 x 317/122]	6,49,590		
	Long-term capital gain [since such plot is held for more than 24 months]	8,50,410		
	Less: Exemption u/s 54D			
	- Acquisition of industrial plot within 3 years			

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Paper 3 - Taxation

Income from other sources Winning from lottery [₹ 47,250 x 100/70] Interest on enhanced compensation Less: 50% of enhanced compensation			
Gross Total Income Less: Deduction under Chapter VI-A Deduction under section 80EEB Interest on loan taken for purchase of electric vehicle allowable as deduction to the extent of Total Income			
Acquisition of industrial plot within 3 years	7,00,000		
		1,50,410	3,50,410
III. Income from other sources			
Winning from lottery [₹ 47,250 x 100/70]		67,500	
Interest on enhanced compensation	1,05,000		
Less: 50% of enhanced compensation	52,500		
Gross Total Income		52,500	1,20,000
Less: Deduction under Chapter VI-A			41,34,410
Deduction under section 80EEB Interest on loan taken for purchase of electric vehicle allowable as deduction to the extent of			1,50,000
Total Income			39,84,410

Computation of tax liability of Mr. Kamal for A.Y.2022-23

Particulars	₹	₹
Tax on long-term capital gains @20% of ₹ 1,50,410		30,082
Tax on winning from lottery @30% of ₹ 67,500		20,250
Tax on total income (excluding LTCG and winning from lottery) of ₹ 37,66,500		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹10,00,000[@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 37,66,500 [@30% of ₹ 27,66,500]	8,29,950	
		9,42,450
		9,92,782
Add: Health and education cess@4%		39,711
Tax liability		10,32,493
Tax liability (rounded off)		10,32,490

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Paper 3 - Taxation

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Question 38

Mr. Anmol (aged 67 years), a manufacturer, reported a profit of ₹ 3,95,11,290 for the previous year 2021-22 after debiting/crediting the following items:

Debits:

- ₹ 15,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
- ₹ 35,500 contributed to an university approved and notified u/s 35(1)(ii) to be used for scientific research.
- Interest paid ₹ 1,75,000 on loan taken for purchase of E-vehicle on 15-07-2021 from a bank. The E-vehicle was purchased for the personal use of his wife.
- He has purchased timber under a forest lease of ₹ 25,00,000 for the purpose of business.

Credits:

- Income of ₹ 3,50,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
- He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2017-18. Amount due from the debtor (which was written off as bad) was ₹ 4,00,000, out of which tax officer had only allowed ₹ 2,50,000 as deduction in computing the total income for assessment year 2018-19.
- He sold some goods to his brother for ₹ 6,00,000. The fair market value of such goods was ₹ 9,00,000.

Other information:

- Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
 - Mr. Anmol purchased a new car of ₹ 14,00,000 on 1st August, 2021 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
 - Mr. Anmol had sold a house on 25th March, 2021 and deposited the long term capital gains of ₹ 20,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 11th March, 2022, he sold another house property in which he resided for ₹ 1 crore. He earned a long term capital gain of ₹ 55,00,000 on sale of this property. On 25th March, 2022, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.
 - Mr. Anmol also made the following payments during the previous year 2021-22
 - Lump-sum premium of ₹ 1,20,000 paid on 30th March, 2022 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30 th March, 2022 to 29th March, 2027.
 - ₹ 8,000 paid in cash for preventive health check-up of self and spouse.
- Compute the total income and tax payable by Mr. Anmol for the assessment year 2022-23 assuming he does not opt for section 115BAC. (MTP 14 Marks Oct'22) (Same concept different figures PYP 14 Marks Jan'21)

Answer 38

Computation of total income of Mr. Anmol for A.Y. 2022-23

	18BParticulars	₹	₹	₹
20 BI	Income from business or profession			
	Net profit as per profit and loss account		3,95,11,290	
	Add: Items of expenditure debited but not allowable while computing business income			

Paper 3 - Taxation

(a) Donation to Gurudwara in cash [not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]	15,000		
(b) Contribution to an university approved and notified u/s 35(1)(ii) for scientific research [Eligible for deduction @100%. Since, 100% of the expenditure is already debited to profit and loss account, no adjustment is required]	-		
(c) Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e-vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,75,000		
(iii) Sale of goods to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of ₹ 3 lakh]	-	1,90,000	
		3,97,01,290	
Less: Items of income credited but not taxable or taxable under any other head of income			
(i) Royalty on patent [Not taxable as business income since Mr. Anmol is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]	3,50,000		
(ii) Bad debt recovered [Actual bad debt is ₹ 1 lakhs i.e., ₹ 4 lakhs less ₹ 3 lakh, being the amount of bad debt recovered. Bad debt written off is ₹ 2.50 lakhs. Bad debt recovered to the extent of ₹ 1.50 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire ₹ 3 lakhs is credited to the profit and loss account, ₹ 1.50 lakhs has to be reduced]	1,50,000	5,00,000	
		3,92,01,290	
Less: Allowable expenditure			
7. Depreciation on car [₹ 14 lakh x 15%, since car is put to use for more than 180 days in the P.Y.2021-22]		2,10,000	
			3,89,91,290
II Capital Gain			
Long term capital gain on sale of house property		55,00,000	

Paper 3 - Taxation

	Less: Exemption under section 54 [Since whole amount of long term capital gain is invested in construction of house within the stipulated time limit.] [Capital gain of ₹ 20 lakhs in capital gain account scheme is not taxable in P.Y. 2021-22, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹ 80 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of ₹55 lakhs being long- term capital gain on sale of house property during the P.Y.2021-22]		55,00,000	
III	Income from Other Sources			
	Royalty on patent [Taxable as “income from other sources”, since he is engaged in business of manufacturing]			3,50,000
	Gross Total Income			3,93,41,290
	Less: Deduction under Chapter VI-A			
	Deduction under section 80D - Medclaim premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. [₹ 1,20,000/6 years,	20,000		
	being relevant previous years in which the insurance is in force]			
	- Preventive health check up of self and spouse [Preventive health check up paid in cash allowed to the extent of ₹ 5,000]	5,000	25,000	
	Deduction under section 80EEB [Since the loan is sanctioned by Bank during the P.Y. 2021-22, interest on loan taken for purchase of e-vehicle is allowed to the extent of ₹ 1,50,000]		1,50,000	
	Deduction under section 80G [Donation of ₹ 15,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash]		-	
	Deduction under section 80RRB [Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of ₹ 3 lakh]		3,00,000	4,75,000
	Total income			3,88,66,290

Computation of tax payable by Mr. Anmol for A.Y.2022-23

Particulars	₹	₹
Tax on total income of ₹ 3,88,66,290		
Upto ₹3,00,000	Nil	
₹3,00,001 – ₹ 5,00,000 [@5% of ₹2 lakh]	10,000	
₹5,00,001 – ₹10,00,000 [@20% of ₹5,00,000]	1,00,000	
₹10,00,001- ₹ 3,88,66,290 [@30% of ₹ 3,78,66,290]	1,13,59,887	1,14,69,887

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Add: Surcharge @ 25%, since total income exceeds ₹ 2,00,00,000 but does not exceed ₹ 5,00,00,000		28,67,472
		1,43,37,359
Add: Health and education cess@4%		5,73,494
Total tax liability		1,49,10,853
Less: TCS u/s 206C(1) @ 2.5% on ₹ 25 lakh i.e., timber	62,500	
TCS u/s 206C(1F)@1% of ₹14 lakh i.e., sale of motor car where consideration exceeds ₹10 lakh	14,000	
TDS u/s 194-IA@1% of ₹1 crore i.e., sale of immovable property where consideration is ₹ 50 lakh or more	1,00,000	1,76,500
Tax payable		1,47,34,353
Tax payable (rounded off)		1,47,34,350

Question 39

Mr. Rishabh, a resident individual, aged 54 years, is engaged in the business of manufacturing clothes. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

- (i) **Depreciation ₹ 15,40,000**
- (ii) **Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000**
- (iii) **He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.**
- (iv) **Dividend income from Indian companies ₹ 15,00,000**

Additional information –

- (i) **Mr. Rishabh installed new plant and machinery for ₹ 65 lakhs on 1.10.2022 which was put to use on 1.1.2023. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules.**
- (ii) **Mr. Rishabh took a loan from SBI of ₹ 50 lakhs on 15.9.2022 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2023 has been paid on 31.3.2023 and the same has been debited to profit and loss account. Interest is charged by the bank on monthly basis.**
- (iii) **Advance tax paid during the year is ₹ 17,50,000**
- (iv) **Rishabh purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.**
- (v) **He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2017.**
- (vi) **He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.**
- (vii) **On 1.7.2022, Mr. Rishabh withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with HSBC. There are no other withdrawals during the year. He regularly files his return of income.**

You are required to compute the total income and tax payable by Mr. Rishabh for the A.Y. 2023 -24, in the manner so that he can make maximum tax savings.

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Paper 3 - Taxation

(MTP 14 Marks April '23, RTP May'22)

Answer 39

Computation of total income of Mr. Rishabh for A.Y. 2023-24 under the regular provisions of the Act

Particulars		₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		82,45,000	
	Add: Items of expenditure not allowable while computing business income			
	(i) Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of ₹ 1,53,125 [₹ 50,00,000 x 10.5% x 3.5/12] has to be added back, since the same is debited to the profit and loss account]	1,53,125		
	(ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]	5,00,000	6,53,125	
	Less: Items of income to be treated separately under the respective head of income			
	(i) Income-tax refund including interest on refund of ₹ 4,550	15,550	88,98,125	
	(ii) Dividend from Indian companies	15,00,000		
	(ii) Short term capital gains on transfer of listed equity shares	10,00,000	25,15,550	
			63,82,575	
	Less: Depreciation on interest on loan capitalised to plant and machinery ₹ 1,53,125, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized			
	Normal depreciation @15% x 50% on such interest	11,484		
	Additional depreciation @20% x 50% on such interest [Since plant & machinery was put to use for less than 180 days in P.Y. 2022-23, it is eligible for 50% of the rate of depreciation]	15,313	26,797	

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				63,55,778
II	Capital Gains			10,00,000
	Short term capital gains on transfer of listed equity shares			
III	Income from Other Sources			
	Interest on income-tax refund		4,550	
	Dividend from Indian companies		15,00,000	15,04,550
	Gross Total Income			88,60,328
	Less: Deductions under Chapter VI-A - Deduction under section 80C		40,000	
	Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5,00,000, being the sum assured] - Deduction under section 80D		25,000	65,000
	Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000			
	Total Income			87,95,328
	Total Income (Rounded off)			87,95,330

Computation of tax payable by Mr. Rishabh for A.Y. 2023-24 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 87,95,330		
Tax on short term capital gains on transfer of listed equity shares		1,50,000
@15% u/s 111A [₹ 10,00,000 x 15%]		
Tax on other Income of ₹ 77,95,330		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 77,95,330 [@30% of ₹ 67,95,330]	20,38,599	21,51,099
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		23,01,099
		2,30,110
		25,31,209
Add: Health and education cess@4%		1,01,248
Total tax liability		26,32,457

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Less: TDS u/s 194N@2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	17,50,000	18,50,000
Tax payable		7,82,457
Tax payable (rounded off)		7,82,460

Computation of total income of Mr. Rishabh as per section 115BAC for A.Y. 2023-24

Particulars	₹	₹
Gross Total Income as per regular provisions of the Income-tax Act		88,60,328
Add: Additional depreciation on plant and machinery		
- On interest which is capitalised	15,313	
- On cost of plant and machinery [₹ 65 lakhs x 20% x 50%]	6,50,000	6,65,313
Gross Total Income/ Total Income as per section 115BAC		95,25,641
[No deduction under section 10AA or under Chapter VI-A allowable except u/s 80JJAA]		95,25,640
Total Income as per section 115BAC (rounded off)		0

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 95,25,640		
Tax on STCG of ₹ 10,00,000@15% u/s 111A		1,50,000
Tax on remaining total income of ₹ 85,25,640		
Upto ₹ 2,50,000 ₹ 3,00,000		Nil
₹ 3,00,000 – ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	15,000	
₹ 6,00,001 – ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
₹ 9,00,001 – ₹ 12,00,000 [₹ 3,00,000 @ 15%] 45,000	45,000	
₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000	60,000	
Above ₹ 15,00,000 @30% [₹ 70,25,640@30%]	21,07,692	
		22,57,692
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,25,769
		24,83,461
Add: Health and education cess@4%		99,338
Total tax liability		25,82,799
Less: TDS u/s 194N@2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	17,50,000	18,50,000
Tax payable		7,32,799
Tax payable (rounded off)		7,32,800

Since tax payable as per section 115BAC is higher than the tax payable as per normal

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provisions of the Income tax Act, 1961, it is beneficial for Mr. Rishabh not to exercise option under section 115BAC. In such case, the tax payable by him would be ₹ 7,82,460 as per the regular provisions of the Act.

Since tax payable as per section 115BAC is lower than the tax payable as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Rishabh to exercise option under section 115BAC. In such case, the tax payable by him would be ₹ 732,800 as per the regular provisions of the Act.

Question 40

For the A.Y. 2018-19, the Gross Total Income of Mr. Raja, a resident in India, was ₹ 8,00,000 which includes long-term capital gain of ₹ 2,50,000 and Short-term capital gain of ₹ 50,000. The Gross Total Income also includes interest income of ₹ 15,000 from savings bank deposits with banks. Mr. Raja has invested in PPF ₹ 1,40,000 and also paid a medical insurance premium ₹ 35,000 for self. Mr. Raja also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Raja, who is 65 years old as on 31.3.2018.(RTP May '18)

Answer 40

Computation of total income and tax payable by Mr. Raja for the A.Y. 2018-19

Particulars	₹	₹
Gross total income including long term capital gain		8,00,000
Less: Long term capital gain		2,50,000
		5,50,000
Less: Deductions under Chapter VI-A:		
Under section 80C in respect of PPF deposit	1,40,000	
is paid by otherwise than by cash. The deduction would be	30,000	
	35,000	
restricted to ₹ 30,000 (50,000 as per amendment), since Mr. Raja is a resident senior citizen)		
Under section 80G (See Notes 1 & 2 below)	18,500	
	18,250	
Under section 80TTA (See Note 3 below)	10,000	2,03,250
Total income (excluding long term capital gains)		3,46,750
Total income (including long term capital gains)		5,96,750
Tax on total income (including long-term capital gains of ₹ 2,50,000)		
LTCG ₹ 2,50,000 x 20%		50,000
Balance total income ₹ 3,46,750: Tax @5% on ₹ 46,750		2,338
(₹ 3,46,750 – ₹ 3,00,000, being the basic exemption limit for senior citizen)		52,338
Add: Education cess @2% and Secondary and higher education cess @1%		1,577
Add: EC & SHEC @ 4%		2094
Total tax liability		54,432
Total tax liability (rounded off)		54,430

Notes:

1. Computation of deduction under section 80G:

Particulars	₹
Gross total income (excluding long term capital gains)	5,50,000
Less: Deduction under section 80C, 80D & 80TTA	1,85,000
	3,65,000

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10% of the above	36,500
Contribution made to Public Charitable Trust	50,000
Lower of the two eligible for deduction under section 80G	36,500
Deduction under section 80G – 50% of ₹ 37,000	18,250

***Because of amendment in 80D limit to Rs.50,000 to senior citizens**

- Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
- Deduction of upto ₹ 10,000 under section 80TTA is allowed, inter alia, to an individual assessee if gross total income includes interest income from deposits in a saving account with bank. Since Gross Total Income of Mr. Raja includes interest income of ₹ 15,000 on savings bank deposit, he is eligible for deduction of ₹ 10,000 under section 80TTA.

Question 41

Mr. Manohar, a resident individual, age 53 years provides consultancy services in the field of Taxation. His Income and Expenditure account for the year ended 31st March, 2020 is as follows:

Income and Expenditure account for the year ending 31st March, 2020

Expenditure	Amount (₹)	Income	Amount (₹)
To Salary	4,00,000	By Consulting fees	58,00,000
To Motor car expenses	88,000	By Share of Profit from HUF	55,000
To Depreciation	87,500	By Interest on bank fixed deposits	25,000
To Medical expenses	70,000	By Interest on income tax refund	26,000
To Purchase of computer	90,000		
To Bonus	25,000		
To General expenses	1,05,000		
To Office & administrative	1,15,000		
To Excess of income over Expenditure	49,25,500		
	59,06,000		59,06,000

The following other information relates to the financial year 2019-20:

- Salary includes a payment of ₹ 22,000 per month to his sister-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 18,000 per month.
- Written down value of the assets as on 1st April, 2019 are as follows: Motor Car (25% used for personal use) ₹ 3,50,000 Furniture and Fittings ₹ 80,000
- Medical expenses includes:
 - Family planning expenditure ₹ 15,000 incurred for the employees which was revenue in nature.
 - Medical expenses for his father ₹ 55,000. (Father's age is 65 years and he is not covered under any medical insurance policy). ₹ 2,500 incurred in cash and remaining by credit card.
- The computer was purchased on 5th June, 2019 on credit. The total invoice was paid in the following manner:
 - ₹ 18,000 paid in cash as down payment on the date of purchase.
 - Remaining amount was paid through account payee cheque on 10th August, 2019.
- Bonus was paid on 30th September, 2020.
- General expenses include commission payment of ₹ 42,000 to Mr. Mahesh for the promotion of business on 17th September, 2019 without deduction of tax at source.

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(7) He also received gold coins from a family friend on the occasion of marriage anniversary on 15th November, 2019. The market value of the coins on the said date was ₹ 85,000.

The consultancy fees for the previous year 2018-19 was ₹ 52,50,300.

Compute the total income and the tax liability of Mr. Manohar for the assessment year 2020-21. (RTP Nov '19)

Answer 41

Computation of Total Income of Mr. Manohar for the A.Y.2020-21

Particulars	₹	₹
Profit and gains from business or profession		
Net income as per Income and Expenditure Account		49,25,500
Add: Expenses debited but not allowable		
- Excess salary of ₹ 4,000 per month to sister-in-law [not disallowed since sister-in-law does not fall within the definition of 'relative' under section 2(41)]	-	
- Motor car expenses attributable to personal use not allowable (₹ 88,000 x 25%)	22,000	
- Depreciation as per books of account	87,500	
- Medical expenses of ₹ 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only]	15,000	
- Medical expenditure of ₹ 55,000 incurred for his father, not allowable, since it is personal in nature]	55,000	
- Purchase of computer (not allowable since it is capital in nature)	90,000	
- Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 30.9.2020)	-	
[For the P.Y.2019-20, the gross receipts i.e., fees of Mr. Manohar from consultancy services is ₹ 58 lakhs (exceeding ₹ 50 lakhs), he has to get his books of account audited under section 44AB, in which case, his due date for filing return of income would be 30.9.2020 (as per amendment 31 st Oct from AY 22-23)]		
- Commission paid without deduction of tax at source [Mr. Manohar would be liable to deduct tax at source under section 194-H on commission paid during the P.Y.2019- 20, since his gross receipts from profession during the P.Y.2018-19 exceeded the monetary limit specified in section 44AB i.e., ₹ 50 lakhs. Thus, 30% disallowance would be attracted since he has not deducted tax at source on the commission]	12,600	2,82,100
Less: Income credited but not taxable or taxable under any other head		52,07,600
- Share of profit from HUF (Exempt)	55,000	
- Interest on bank fixed deposit	25,000	
- Interest on income-tax refund	26,000	
		1,06,000
		51,01,600
Less: Depreciation allowable under the Income-tax Act, 1961 [See Working Note]		76,175
Income from Other Sources		50,25,425

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- Interest on bank fixed deposits	25,000	
- Interest on income-tax refund	26,000	
- Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable under section 56(2)(x), as the fair market value of such coins exceeds ₹ 50,000)	85,000	1,36,000
Gross Total Income		51,61,425
Less: Deduction under Chapter VI-A		
Section 80D Medical expenses for father (Deduction allowable to the extent of ₹ 50,000 since father, aged 65 years, is a senior citizen and is not covered under any medical insurance policy)		50,000
Total Income		51,11,425
Total Income (Rounded off)		51,11,430

Computation of tax liability of Mr. Manohar for A.Y. 2020-21

Particulars	₹	₹
Tax on total income of ₹ 51,11,430		
Upto ₹ 2,50,000		Nil
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 – ₹ 10,00,000 @20%	1,00,000	
Above ₹ 10,00,001 i.e., 41,11,430 @30%	12,33,429	13,45,929
Add: Surcharge @10% [Since his total income exceed ₹ 50,00,000]		1,34,593
Less: Marginal Relief:		14,80,522
Excess tax payable [14,80,522 - 13,12,500, being the amount of tax payable on total income of ₹ 50 lakhs]	1,68,022	
Amount of income in excess of ₹ 50,00,000	1,11,430	56,592
		14,23,930
Add: Health & Education cess@4%		56,957
Tax liability		14,80,887
Tax liability (rounded off)		14,80,890

Working note:**Computation of depreciation allowable as per Income-tax Act, 1961**

Particulars	₹
On Motor Car	
₹ 3,50,000 x 15% x 75%	39,375
On Furniture and fittings	
₹ 80,000 x 10%	8,000
On Computer	
₹ 72,000 x 40% [Actual cost of the computer is ₹ 72,000 (i.e., ₹ 90,000 – ₹ 18,000). ₹ 18,000 paid otherwise than by way of account payee cheque/bank draft or use of ECS is not includible in actual cost.]	28,800
	76,175

Question 42

Mr. Dheeraj, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2021:

- He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 3,34,000. He has paid municipal taxes of ₹ 30,000 for the current financial year. Both these floors are of equal size.**
- As per interest certificate from ICICI bank, he paid ₹ 1,80,000 as interest and ₹ 95,000 towards principal repayment of housing loan borrowed for the above**

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residential building in the year 2014.

- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2018-19. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 120 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 45 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2020-21. Out of 20 employees, 12 were employed on 1st May 2020 on monthly emoluments of ₹ 18,000 and remaining were employed on 1st August 2020 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹ 30,000 and ₹ 45,000 as interest on saving bank deposits and fixed deposits respectively.
- (vi) He also sold his vacant land on 01.12.2020 for ₹ 13 lakhs. The stamp duty value of land at the time of transfer was ₹ 14 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. This land was acquired by him on 15.9.1997 for ₹ 2.80 lakhs. He had incurred registration expenses of ₹ 12,000 at that time. The cost of inflation index for the financial year 2020-21 and 2001-02 are 301 and 100 respectively.
- (vii) He paid insurance premium of ₹ 49,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute his total income and tax liability of Mr. Dheeraj for the Assessment Year 2021-22, in the manner so that he can make maximum tax savings. (RTP Nov '21)(MTP 14 Marks Oct '23)

Answer 42**Computation of total income of Mr. Dheeraj for A.Y. 2021-22**

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		3,34,000	
	Less: Municipal taxes paid by him in the P.Y. 2020-21 pertaining to let out portion [₹ 30,000/2]		15,000	
	Net Annual Value (NAV)		3,19,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 3,19,000	95,700		
	(b) Interest on housing loan [₹ 1,80,000/2]	90,000	1,85,700	
			1,33,300	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Less: Interest on housing loan		90,000	
			(90,000)	
	Income from house property [₹ 1,33,300 – ₹ 90,000]			43,300
II	Profits and gains of business or profession			
	Income from SEZ unit			45,00,000
III	Capital Gains			
	Long-term capital gains on sale of land (since held for more than 24 months)			

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Paper 3 - Taxation

₹ 5,00,001 – ₹ 10,00,000[@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 – ₹ 21,71,100[@30% of ₹ 11,71,700]	3,51,330	4,63,830
		4,83,030
Add: Health and education cess@4%		19,321
Total tax liability		5,02,351
Tax liability (rounded off)		5,02,350

Computation of tax liability of Mr. Dheeraj for A.Y.2021-22 under the special provisions of the Act (Alternate Minimum Tax)

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	22,67,100
Add: Deduction u/s 10AA	13,50,000
Deduction u/s 80JJAA	9,43,200
	45,60,300
AMT@18.5%	8,43,656
Add: HEC@4%	33,746
AMT liability	8,77,402
AMT liability (rounded off)	8,77,400

Since the regular income tax payable is less than the AMT, the adjusted total income of ₹ 45,60,300 would be deemed to be the total income and tax would be payable @18.5% plus HEC@4%. The total tax liability would be ₹ 8,77,400. In this case, AMT credit of ₹ 3,75,050 (₹ 8,77,400 – ₹ 5,02,350) can be carried forward.

Mr. Dheeraj also can opt to pay tax as per the provisions of section 115BAC if tax liability thereunder is lower. In such case, the AMT provisions would not apply on him. The computation of total income and tax liability as per the provisions of section 115BAC would be as follows:

Computation of total income of Mr. Dheeraj as per section 115BAC for A.Y. 2021-22

Particulars	₹	₹
Gross Total Income as per regular provisions of the Income-tax Act		47,14,300
Add: Interest on borrowing in respect of self-occupied house property not allowable as deduction as per section 115BAC		90,000
Gross Total Income as per section 115BAC		48,04,300
Less: Deduction under section 80JJAA		
30% of the employee cost of the new employees employed during the P.Y. 2020-21 allowable as deduction [30% of ₹ 31,44,000 [₹ 23,76,000 (12 x 18,000 x 11) + ₹ 7,68,000 (8 x 12,000 x 8)]]	9,43,200	
No deduction under section 10AA or under Chapter VI-A allowable except u/s 80JJAA		9,43,200
Total income		38,61,100

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 38,61,100		
Tax on LTCG of ₹ 96,000@20%		19,200
Tax on remaining total income of ₹ 37,65,100		
Upto ₹ 2,50,000 ₹ 3,00,000 Nil		Nil
₹ ₹ 3,00,000 – ₹ 6,00,000 [₹ 3,00,000 @ 5%]	15,000	
₹ ₹ 6,00,001 – ₹ 9,00,000 [₹ 3,00,000 @ 10%]	30,000	

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Paper 3 - Taxation

₹ 9,00,001 – ₹ 12,00,000 [₹3,00,000 @ 15%]	45,000	
₹ 12,00,001 – ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	60,000	
Above ₹ 15,00,000 @30%	6,79,530	8,29,530
		8,48,730
Add: Health and education cess@4%		33,949
Total tax liability		8,82,679
Tax liability (rounded off)		8,82,680

Since tax liability as per section 115BAC is higher than the tax liability of ₹ 8,77,400 being higher of AMT liability and tax liability computed as per normal provisions of the Income- tax Act, 1961, it is beneficial for Mr. Dheeraj not to exercise option under section 115BAC. In such case, his tax liability, therefore, would be ₹ 8,77,400. Moreover, Mr. Dheeraj would also be eligible to claim carry forward of AMT credit of ₹ 3,75,050.

Question 43

On 10th April, 2018, Mr. Mayur made a gift of ₹ 4,45,000 to his handicapped son, Master Tanmay aged 10 years. He deposited such amount in a fixed deposit account in a Nationalised bank. The bank credited a sum of ₹ 42,500 as interest on fixed deposit on 31st March, 2019. Mayur's father gifted 10,000 unlisted equity shares of an Indian company to Master Tejas, another son of Mr. Mayur (Date of birth 19th June, 2011) in September 2011 which were purchased by him on 18th December, 2004 for ₹ 95,000. Tejas received a dividend of ₹ 10,000 on these shares in October 2018. He sold these shares on 1st December, 2018 for ₹ 4,80,000 and deposited ₹ 3,10,000 in a company at 14% interest per annum.

Cost Inflation Index

Financial Year	Cost Inflation Index
2004-05	113
2011-12	184
2018-19	280

Mr. Mayur has a taxable income of ₹ 4,50,000 from his profession during the financial year 2018-19. Compute his Gross Total Income for the A.Y. 2019-20. (RTP May '19)

Answer 43

Computation of Gross Total Income of Mr. Mayur for the A.Y. 2019-20

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed Cost of Acquisition [₹ 95,000 x 280/184]	1,44,565	3,35,435	
Income from Other Sources			
Dividend of ₹ 10,000 on equity shares [Exempt u/s 10(34)]	10,000		
As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.			

Paper 3 - Taxation

Interest on company deposit [₹ 3,10,000 x 14% x 4/12]	14,467	24,467	
		3,59,902	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	3,58,402
Gross Total Income			8,08,402

Notes:

- (1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 42,500 arising to handicapped son, Master Tanmay, would not be clubbed with the income of Mr. Mayur.
- (2) Income of the other minor child, Master Tejas, is includible in the hands of Mr. Mayur, assuming that Mr. Mayur's income is higher than that of his wife.
- (3) In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Tejas held the asset, i.e., F.Y.2011-12, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. The solution based on alternate view is given as under:

Computation of gross total income of Mr. Mayur for the A.Y. 2019-20

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed Cost of Acquisition [₹ 95,000 x 280/113]	2,35,398	2,44,602	
Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)] As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished)	10,000		
Interest on company deposit [₹ 3,10,000 x 14% x 4/12]	14,467	24,467	

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Paper 3 - Taxation

Less: Exemption u/s 10(32) in respect of income of minor child		2,69,069	
		1,500	2,67,569
Gross Total Income			7,17,569

Question 44

Mr. Akash owns a residential house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 1,60,000, ₹ 1,70,000 and ₹ 1,90,000, respectively. The house has two independent units. Unit I (25% of floor area) is utilized for the purpose of his profession and Unit II (75% of floor area) is let out for residential purposes at a monthly rent of ₹ 8,500. Municipal taxes @8% of the Municipal Value were paid during the year by Mr. Akash. He made the following payments in respect of the house property during the previous year 2022-23:

Light and Water charges ₹ 2,000, Repairs ₹ 1,45,000, Interest on loan taken for the repair of property ₹ 36,000. Mr. Akash has taken a loan of ₹ 5,00,000 in July, 2016 for the construction of the above house property. Construction was completed on 30th June, 2019. He paid interest on loan @12% per annum and every month such interest was paid. No repayment of loan has been made so far. Income of Mr. Akash from his profession amounted to ₹ 8,00,000 during the year (without debiting house rent and other incidental expenditure including admissible depreciation of ₹ 8,000 on the portion of house used for profession).

Determine the Gross total income of Mr. Akash for the A.Y. 2023-24 ignoring the provisions of section 115BAC. (RTP May '23)

Answer 44

Computation of Gross total income of Mr. Akash for the A.Y. 2023-24

Particulars		₹	₹
I	Income from House Property		
	Unit-II (75% of floor area)		
	Gross Annual Value		
	(a) Actual rent received (₹ 8,500 x 12)	₹ 1,02,000	
	(b) Expected rent	₹ 1,27,500	
	[Higher of municipal value (i.e. ₹ 1,60,000) and fair rent (i.e. ₹ 1,70,000) but restricted to standard rent (i.e. ₹ 1,90,000) ₹ 1,70,000 x 75%]		
	Higher of (a) or (b) is GAV		1,27,500
	Less: Municipal taxes (₹ 1,60,000 x 8% x 75%)		9,600
	NAV		1,17,900
	Less: Deductions u/s 24		
	(a) 30% of NAV	₹ 35,370	
	(b) Interest on loan (See note)	₹ 96,750	1,32,120
II	Profits & Gains of business & profession		
	Income from Profession	₹ 8,00,000	
	Less: Light & Water Charges (25% of ₹ 2,000)	₹ 500	0
			(14,220)

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Municipal taxes (25% of ₹ 12,800)	₹ 3,200		
Repairs (25% of ₹ 1,45,000)	₹ 36,250		
Interest on loan taken for repair (25% of ₹ 36,000)	₹ 9,000		
Interest on loan taken for construction of house property (25% of ₹ 60,000)	₹ 15,000		
Depreciation	₹ 8,000	71,950	7,28,050
Gross Total Income			7,13,830

Note:**Computation of Interest on loan**

	₹
Interest for the year (₹ 5,00,000 x 12%)	60,000
Pre-construction period Interest- 12% of ₹ 5,00,000 for 33 months = ₹ 1,65,000	
To be allowed in 5 equal instalments from the year of completion (₹ 1,65,000 x 1/5)	33,000
Interest on loan taken for repair (no restriction for let out property)	36,000
Total Interest deduction u/s 24(b)	1,29,000
Total Interest deduction u/s 24(b) for let out property (75% x ₹ 1,29,000)	96,750

Question 45

Mr. Kamal, a resident individual aged 48 years, is working at a senior management position in a private bank since past 20 years. During the previous year 2022-23, he received the following emoluments from the employer:

- Basic Salary ₹ 3,50,000 per month.**
- Client entertainment reimbursement of ₹ 20,000 per month out of which he submitted bills for ₹ 2,00,000 for the relevant year.**
- Leave travel allowance of ₹ 4,00,000 per annum. He took a trip to Goa with his spouse and two children in December 2022, for which plane boarding tickets of ₹ 1,00,000 and hotel bookings of ₹ 3,00,000 were submitted to the employer.**
- Performance bonus amounting to 20% of annual basic salary.**
- He is eligible to take a staff housing loan upto ₹ 20,00,000 at a concessional rate of 2.5% p.a. He availed a housing loan of ₹ 15,00,000 out of the same on 1st June 2022. No repayment of loan has been made during the F.Y. 2022-23. The lending rate of SBI as on 1.4.2022 for housing loan may be taken as 8% p.a.**
- The Bank also allotted 1,500 sweat equity shares to Mr. Kamal in May 2022 at the rate of ₹ 1,300 per share. The Fair market value of the share was ₹ 1,500 per share on the date of exercise of option by Mr. Kamal. He sold all the shares for ₹ 2,100 per share on 31.03.2023 on recognised stock exchange. Assume Securities transaction tax has been paid.**

The following transactions were made by Mr. Kamal during the previous year 2022-23:

- He earned rental income of ₹ 35,000 per month from a 3 BHK residential flat situated at Delhi. He purchased the said flat for ₹ 45 Lakhs in June,**

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Paper 3 - Taxation

2022 using the housing loan availed from the employer and his own savings. It was let out from July, 2022. Municipal taxes of ₹ 12,000 for F.Y. 2022-23 was paid by Mr. Kamal.

- (b) He invested ₹ 30,00,000 in RBI Floating Rate Savings Bonds on 1st September 2022 earning an interest of 7% p.a. Interest is credited half yearly on 1st January and 1st July every year. (Assume receipt basis for taxation)
- (c) He also paid LIC premium of ₹ 15,000 for self, ₹ 20,000 for wife and ₹ 30,000 for dependent father, aged 75 years. Medical insurance premium paid on the health of dependent brother and major dependent son amounted to ₹ 5,000 (paid by cheque) and ₹ 10,000 (paid in cash), respectively.
- (d) In December 2022, he earned dividend income of ₹ 5,00,000 (gross) on shares of the bank held by him.

You are required to compute his total income and tax liability for the assessment year 2023-24, clearly showing all workings. (Ignore section 115BAC provisions) (RTP May '23)

Answer 45

Computation of total income of Mr. Kamal for the A.Y. 2023-24

Particulars		Amount (₹)	Amount (₹)
I	Income from salaries		
	Basic Salary [₹ 3,50,000 x 12]	42,00,000	
	Client entertainment reimbursement [₹ 2,40,000 - ₹ 2,00,000]	40,000	
	Leave Travel Allowance [₹ 4,00,000 - ₹ 1,00,000]	3,00,000	
	[Note 1]		
	Performance Bonus (20% of Basic Salary)	8,40,000	
	Interest on Housing loan [₹ 15,00,000 x (8% - 2.5%) x 10/12]	68,750	
	Sweat Equity allotted by the employer (₹ 1,500 - ₹ 1,300) x 1,500	3,00,000	
	Gross Salary	57,48,750	
	Less: Standard deduction	50,000	
	Taxable Salary		56,98,750
II	Income from house property	3,15,000	
	Gross Annual Value under section 23(1) [Rent received for 9 months has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent] [₹ 35,000 x 9]		
	Less: Municipal taxes paid [Paid by Mr. Kamal]	12,000	
	Net Annual Value (NAV)	3,03,000	
	Less: Deduction u/s 24		
	(a) @30% of NAV	90,900	
	(b) Interest on borrowed capital [15,00,000 x 2.5% x 10/12]	31,250	
			1,80,850

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III	Capital gains		9,00,000
	STCG on sale of sweat equity shares [1,500 X (₹ 2,100 - ₹ 1,500)]		
IV	Income from other sources		
	Dividend Income	5,00,000	
	Interest on RBI bonds [₹ 30,00,000 X 7% X 4/12]	70,000	5,70,000
	Gross total Income		73,49,600
	Less: Deduction under Chapter VI-A Deduction u/s 80C for LIC premium paid for self and wife [Note 2]	35,000	
	Deduction u/s 80 D [Note 3]	Nil	35,000
	Total Income		73,14,600

Computation of tax liability of Mr. Kamal for the A.Y. 2023-24

Particulars	Amount (₹)	Amount (₹)
Tax on STCG u/s 111A @15% on ₹ 9,00,000		1,35,000
Tax on other income of ₹ 64,14,600		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,001 - ₹ 64,14,600 @30%	16,24,380	17,36,880
		18,71,880
Add: Surcharge@10% since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		1,87,188
		20,59,068
Add: Health and Education cess @ 4%		82,363
Tax Liability		21,41,431
Tax Liability (Rounded off)		21,41,430

Notes:

- Hotel Bookings and lodgings are not covered under leave travel facility. Hence, only ₹ 1,00,000 of cost of tickets would be exempt under section 10(5).
- Premium for life insurance policy of father is not allowed as deduction under section 80C.
- Medical insurance premium on the health of brother is not allowable since brother does not come within the meaning of family u/s 80D. In case of son, premium is paid in cash, hence, the same is not allowed.

Question 46

Mrs. Kashish, a resident individual, aged 62 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Kashish for the year ending 31.3.2023 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	7,20,000	By Consultation Fees	74,28,000
To Administrative Exp.	11,64,000	By Salary received from True Care Hospitals (P) Ltd.	10,80,000

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To Rent of clinic	5,76,000	By Rental Income from House Property	2,40,000
To Conveyance Expenses	1,44,000	By Dividend from Foreign Companies (gross)	60,000
To Power & Fuel	1,44,000		
To Interest on Housing Loan	2,20,000		
To Interest on Education Loan for son	1,56,000		
To Amount paid to scientific research association approved & Notified under section 35	1,50,000		
To net profit	55,34,000		
Total	88,08,000	Total	88,08,000

- (i) She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under:

Basic Pay	₹ 85,000 p.m.
Transport Allowance	₹ 5,000 p.m.
Total	₹ 90,000 p.m.

Further, during P.Y. 2022-23, her son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of

₹ 1,60,000 for a similar treatment to unrelated patients.

- (ii) She owns a residential house. The reconstruction of the house was started on 01-04-2022 and was completed on 30-09-2022. After reconstruction, ground floor of the house is self-occupied by her while first floor has been rented out since 1.10.2022. Both the floors are of equal area. The monthly rent is ₹ 40,000. The tenant also pays ₹ 3,000 p.m. as power back-up charges. She took a housing loan of ₹ 25 lakhs for reconstruction on 01-04-2022. Interest on housing loan for the period 01-04-2022 to 30-09-2022 was ₹ 1,20,000 and for the period 01-10-2022 to 31-03-2023 was ₹ 1,00,000. During the year, she also paid municipal taxes for the F.Y. 2021-22 ₹ 5,000 and for F.Y. 2022-23 ₹ 5,000.

- (iii) Other information:

- Conveyance expenses include a sum of ₹ 48,000 incurred for conveyance from house to True Care Hospitals (P) Ltd. and vice versa in relation to her employment.
- Power & fuel expenses include a sum of ₹ 10,000 incurred for generator fuel for providing power back-up to the tenant.
- Administrative expenses include a sum of ₹ 10,000 paid as Municipal Taxes for her house.
- Clinic equipments' details are:

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Opening W.D.V. of clinic equipments as on 01-04-2022 was ₹ 5,00,000 and fresh purchase made on 28-08-2022 is ₹ 75,000 which was paid in cash.

- (e) She also paid tuition fee of ₹ 40,000 for her grand-daughter, which has been debited to her Capital A/c.
- (f) She availed a loan of ₹ 25,00,000 from bank for higher education of her son. She repaid principal of ₹ 3,00,000 and interest of ₹ 1,56,000 during P.Y. 2022-23.

You are required to compute the total income and tax liability of Mrs. Kashish for the A.Y. 2023-24 assuming she is not opting for the provisions of section 115BAC. (RTP Nov '23) (Same concept different figures PYP 14 Marks Nov'19)

Answer 46

Computation of total income and tax liability of Mrs. Kashish for A.Y. 2023-24

	Particulars	₹	₹	₹
I	Income from Salaries:			
	Basic Pay (₹ 85,000 x 12)		10,20,000	
	Transport Allowance (₹ 5,000 x 12) [Fully taxable]		60,000	
	Cost of treatment for son in True Care Hospitals (P) Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite]		Nil	
	Gross Salary		10,80,000	
	Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000	
				10,30,000
II	Income from House Property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV = ₹ 40,000 p.m. x 6 months]		2,40,000	
	Less: Municipal taxes paid by her in the P.Y.2022-23 pertaining to let out portion [(₹ 5,000 + ₹ 5,000)/2], allowable since it is paid during the year, even if it relates to earlier years		5,000	
	Net Annual Value (NAV)		2,35,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 2,35,000	70,500		
	(b) Interest on housing loan [(₹ 1,20,000 (+) ₹ 1,00,000)/2]	1,10,000	1,80,500	
			54,500	
	Self-occupied portion [Ground Floor]			

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	Annual Value	Nil		
	Less: Deduction u/s 24			
	Interest on housing loan for reconstruction		(30,000)	
	₹ 1,10,000 [(₹ 1,20,000 + ₹ 1,00,000)/2] restricted to	30,000		
				24,500
III	Profits and gains of business or profession			
	Net profit as per Income and Expenditure account		55,34,000	
	Less: Items of income to be treated separately under the respective head of income			
	(i) Salary received from True Care Hospitals (P) Ltd.	10,80,000		
	(ii) Rent from house property	2,40,000		
	(iii) Dividend from foreign companies (gross)	60,000		
			13,80,000	
			41,54,000	
	Less: Allowable expenditure			
	• Depreciation on Clinic equipments			
	On Opening WDV ₹ 5,00,000 @15%	75,000		
	On additions during the year ₹ 75,000, no depreciation is allowable, since payment was made in cash and hence, it will not form part of actual cost.	Nil	75,000	
			40,79,000	
	Add: Items of expenditure not allowable while computing business income			
	(i) Interest on housing loan for reconstruction of residential house	2,20,000		
	(ii) Interest on education loan for son	1,56,000		
	(iii) Conveyance expenses in relation to her employment with True Care Hospitals debited to Income and Expenditure A/c, not allowed	48,000		
	(iv) Power and fuel expenses incurred for providing power back up to tenant not deductible	10,000		

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IV	(v) Municipal tax paid relating to residential house included in administrative expenses, not deductible	10,000	4,44,000	45,23,000
	Income from Other Sources			
	Power back up charges from tenant (₹ 3,000 p.m. x 6 months)	18,000		
	Less: Actual expenditure incurred for providing power back up	10,000	8,000	
	Dividend from foreign companies		60,000	68,000
	Gross Total Income			56,45,500
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C – Tuition fee paid for grand child is not allowable		Nil	
	Deduction under section 80E - Interest on loan taken for higher education of her son is deductible [principal repayment is not deductible]		1,56,000	1,56,000
	Total income			54,89,500

Computation of tax liability of Mrs. Kashish for A.Y.2023-24

Particulars	₹	₹
Tax on total income of ₹ 54,89,500		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 5,00,000 [@5% of ₹ 2 lakhs]	10,000	
₹ 5,00,000 – ₹ 10,00,000 [@20% of ₹ 5 lakhs]	1,00,000	
₹ 10,00,000 – ₹ 54,89,500 [@30% of ₹ 44,89,500]	13,46,850	
		14,56,850
Add: Surcharge @10% [Since the total income > ₹ 50 lakhs but ≤ ₹ 1 crore]		1,45,685
		16,02,535
Add: Health and education cess @4%		64,101
Tax liability		16,66,636
Tax liability (rounded off)		16,66,640

Question 47

From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for the previous year ended 31.03.2020, you are requested to compute his total income and tax liability under normal as well as special provisions (AMT), if any, applicable to him for the Assessment Year 2020-21.

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- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year.
- (ii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2017-18. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹ 140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 25 lakhs.
- (iii) He received royalty of ₹ 2,88,000 from abroad for a book authored by him on the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2020 is ₹ 2,30,000.
- (iv) Received, 40,000 as interest on saving bank deposits.
- (v) Received ₹ 47,000 as share of profit from an AOP where all the members are individual and which had paid the tax by normal rates of income tax.
- (vi) He also sold his vacant land on 10.11.2019 for ₹ 10 lakhs. The stamp duty value of land at the time of transfer was ₹ 14 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4 lakhs. This land was acquired by him on 05.08.1995 for ₹ 1.80 lakhs. He had incurred registration expenses of ₹ 10,000 at that time. The cost of inflation index for the year 2019-20 and 2001-02 are 289 and 100 respectively.
- (vii) He paid the following amounts, out of his taxable income:
- Insurance premium of ₹ 39,000 paid on life insurance policy of son, who is not dependent on him.
 - Insurance premium of ₹ 48,000 on policy of his dependent father,
 - Tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child. (PYP 14 Marks, Nov'20) (Same concept fewer adjustments different figures MTP 14 Marks Oct'21)

Answer 47

Computation of total income of Mr. Ganesh for A.Y. 2020-21

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor] 1			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2019-20 pertaining to let out portion [₹ 60,000/2]		30,000	
	Net Annual Value (NAV)		1,98,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 1,98,000		59,400	
	Self-occupied portion [Ground Floor]		1,38,600	
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			1,38,600
II	Profits and gains of business or profession			
	Income from SEZ unit		25,00,00	

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			0	
	Share income from AOP (since AOP has paid tax at normal rates, share income from AOP will be included in computation of total income of a member as per section 862)		47,000	25,47,000
III	Capital Gains			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	Full Value of Consideration [Higher of stamp duty value of ₹ 14 lakhs and Actual consideration of ₹ 10 lakhs, since stamp duty value exceeds actual consideration by more than 5% (10% as per amendment)]	14,00,000		
	Less: Indexed Cost of acquisition [₹ 4,00,000 x 289/100]	11,56,000	2,44,000	
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹ 1.80 lakhs + ₹ 0.10 lakhs = ₹ 1.90 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4 lakhs			
IV	Income from Other Sources			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		40,000	
			2,48,000	
	Interest on savings bank deposits		40,000	
				2,88,000
	Gross Total Income			32,17,600
	Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2019-20 being the 3rd year of operations]			17,50,000
	[Profits of the SEZ x Export Turnover/Total Turnover] x 100%			
	[₹ 25 lakhs x ₹ 140 lakhs/ ₹ 200 lakhs x 100%]			
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C			
	Tuition fee paid for maximum of two children is allowable (₹ 14,000 x 2)	28,000		
	Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Ganesh	39,000		
	3Insurance premium paid on life			

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	insurance policy of father not allowable, even though father is dependent on Mr. Ganesh		67,000	
	Deduction under section 80QQB		1,90,000	
	Royalty [$\text{₹ } 2,88,000 \times 15/18 = \text{₹ } 2,40,000$, restricted to amount brought into India in convertible foreign exchange $\text{₹ } 2,30,000$ minus $\text{₹ } 40,000$ expenses already allowed as deduction while computing royalty income]			
	Deduction under section 80TTA Interest on savings bank account, restricted to $\text{₹ } 10,000$		10,000	
	Total income			2,67,000
				12,00,600

1 It is assumed that the ground floor and first floor are of equal area

2 Since the total income of Mr. Ganesh, who is a member of the AOP, exceeds the basic exemption limit, the AOP should be taxable at maximum marginal rate and not at normal rates, in which case share income of a member would be exempt. This adjustment as well as rebate u/s 110 read with 86 is not within the scope of syllabus of this paper and hence, the same has not been considered in the given solution.

**Computation of tax liability of Mr. Ganesh for A.Y.2020-21
under the normal provisions of the Act**

Particulars	₹	₹
Tax on total income of $\text{₹ } 12,00,600$		
Tax on LTCG of $\text{₹ } 2,44,000@20\%$		48,800
Tax on remaining total income of $9,56,600$		
Upton $\text{₹ } 2,50,000$	Nil	
$\text{₹ } 2,50,001 - \text{₹ } 5,00,000@5\%$ of $\text{₹ } 2.50$ lakh]	12,500	
$\text{₹ } 5,00,001 - \text{₹ } 9,56,600@20\%$ of $\text{₹ } 4,56,600$]	91,320	1,03,820
		1,52,620
Add: Health and education cess@4%		6,105
Total tax liability		1,58,725
Tax liability (rounded off)		1,58,730

3 Deduction u/s 80C has been worked out assuming that insurance premium of Rs. 48,000 paid on policy of dependent father as given in point (vii)(b) is LIC premium, which is not allowable as deduction. However, if it is assumed that the insurance premium is in respect of health insurance, the whole amount of Rs. 48,000 is allowable as deduction u/s 80D.

**Computation of tax liability of Mr. Ganesh for
A.Y.2020-21 under the special provisions of the Act**

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	12,00,600

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	0
Add: Deduction u/s 10AA	17,50,00
	0
Deduction u/s 80QQB	1,90,000
	31,40,60
	0
AMT@18.5%	5,81,011
Add: HEC@4%	23,240
AMT liability	6,04,251
AMT liability (rounded off)	6,04,250
<p>Since the regular income tax payable is less than the AMT, the adjusted total income of ₹ 31,40,600 would be deemed to be the total income and tax would be payable @18.5% plus HEC@4%. The total tax liability would be ₹ 6,04,250.</p>	

Question 48

Mr. Lalit, a dealer in shares and securities, has entered into following transactions during the previous year 2021-22:

- (i) Received a motor car of ₹ 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.
- (ii) Cash gift of ₹ 21,000 each from his four friends.
- (iii) Land at Jaipur on 1st July, 2021 as a gift from his friend Kabra, the stamp duty value of the land is ₹ 6 lakhs as on the date. The land was acquired by Mr. Kabra in the previous year 2001-02 for ₹ 2 lakhs.

Mr. Lalit purchased from his friend Mr. Abhishek, who is also a dealer in shares, 1000 shares of ABC Ltd. @₹400 each on 19th June, 2021 the fair market value of which was

₹ 600 each on that date. Mr. Lalit sold these shares in the course of his business on 23rd June, 2021. Further, on 1st November, 2021, Mr. Lalit took possession of his residential house booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2021 was ₹ 32 lakh and on the date of booking was ₹ 24 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

He received a shop (building) of the fair market value ₹ 1,50,000 and cash ₹ 50,000 in distribution from the ABC (P) Ltd at the time of liquidation process of the company in proportion of his share capital. The balance in general reserve of the company attributable to his share capital is ₹ 1,25,000.

On 1st March, 2022, he sold the plot of land at Jaipur for ₹ 8 lakh. The value of the cost inflation index is 100 and 317 for the previous year 2001 -02 and 2021-22 respectively.

Compute the income of Mr. Lalit chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2022-23. (PYP 8 Marks May'22)

Answer 48

Computation of "Income from Other Sources" of Mr. Lalit for the A.Y. 2022-23

Particulars		₹
(i)	Motor car is not included in the definition of "property" for the purpose of section 56(2)(x), hence, value of the same is not taxable, even though it is received without any consideration.	-
(ii)	Cash gift is taxable under section 56(2)(x) [since the aggregate of ₹ 84,000 (₹ 21,000 x 4) exceeds ₹	84,000

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	50,000]	
(iii)	Stamp value of plot of land at Jaipur, received without consideration, is taxable under section 56(2)(x), since the same exceeds ₹ 50,000	6,00,000
(iv)	Difference of ₹ 2 lakh [1000 shares x ₹ 200] in the value of shares of ABC Ltd. purchased from Mr. Abhishek, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. Lalit (since he is a dealer in shares) and not capital asset. ¹	-
(v)	Difference between the stamp duty value of ₹ 24 lakh on the date of booking (since advance was paid by account payee cheque on that date) and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	4,00,000
(vi)	Distribution of assets by ABC (P) Ltd. on liquidation attributable to the accumulated profits (general reserve) of the company is taxable as dividend under section 2(22)(c).	1,25,000
Income taxable under the head "Income from other sources"		12,09,000

Computation of "Capital Gains" of Mr. Lalit for the A.Y.2022-23

Particulars	₹
Capital gains on sale of land at Jaipur	
Sale Consideration	8,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x)]	6,00,000
Short-term capital gains (since held for a period of not more than 24 months. Period of holding of previous owner, Mr. Kabra, not to be considered)	2,00,000
Capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
Full value of consideration for capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
FMV of assets distributed	1,50,000
Cash	50,000
	2,00,000
Less: Deemed dividend under section 2(22)(c)	1,25,000
Full value of consideration for computing capital gains	75,000

¹ Since Mr. Lalit is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. Lalit.

Note -

- (i) As cost of acquisition of shares in ABC(P) Ltd. is not given in the question, capital gains on distribution of assets on liquidation of ABC(P) Ltd. in the hands of Mr. Lalit has not been computed.
- (ii) As per section 56(1)(i), dividend income is chargeable under the head "Income from Other Sources". Hence, deemed dividend u/s 2(22)(c) would be taxable under the head "Income from Other Sources" in the hands of Mr. Lalit, who is a dealer in shares².

² Alternatively, as per the tutorials given on the website of the Income-tax department, if shares are held for trading purposes, then the dividend income would be taxable under the head "Profits and gains of business or profession".

Question 49

Dr. Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai,

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gives the following particulars for the year ended on 31.03.2022.

Receipts	₹	Payments	₹
Opening Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (net)	5,85,000	Taxes & Insurance	26,000
Fees for March, 2021 received in April, 2021		Entertainment Expenses	1,10,000
IPD 40,000	85,000	Purchase of Television	48,000
OPD 45,000			
Dividend from shares (net)	18,900	Gift to daughter-in law	60,000
Fees received during the year	10,25,000	Interest on loan for repairs to property	65,000
Gifts received from relatives of patients	45,000	Personal medical expenses	70,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Deposits in PPF A/c	55,000
Income-tax Refund (Including interest ₹ 1,500)	12,100	Nursing Home expenses	3,75,000
		Prof. fees paid for consulting services	1,20,000
		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500
	19,18,500		19,18,500

Other Information:

- I. He keeps his books of accounts on cash basis and has not opted for the provisions of section 44ADA.
- II. Salary includes ₹ 60,000 paid to his sister who is a qualified nurse paid in cash.
- III. Entertainment expenses include ₹ 25,000 for dinner to doctors in a five star hotel.
- IV. Interest on loan for repairs to property includes ₹ 40,000 for his residential property.
- V. His daughter in law earned income of ₹ 10,000 from the amount received as gift.
- VI. Fixed Assets values as on 01.04.2021 are as under :
Nursing Home Equipment's ₹ 2,20,000, Medical Books (incl. annual publications ₹ 10,000) ₹ 35,000, Laptop ₹ 40,000.
- VII. Television purchased for nursing home purpose on 21.09.2021 is put to use on 03.10.2021.
- VIII. He has donated ₹ 10,000 towards PM CARES Fund on 15.08.2021.

You are required to

- I. Compute the total income and tax payable by him for AY 2022 -23 as per

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the regular provisions of the Income-tax Act, 1961. Assume that he has not opted for section 115BAC.

- II. What will be his total income and tax payable, if he opts for the provisions of section 44ADA? Will it be more beneficial for him to adopt 44ADA? (PYP 14 Marks Nov '22)

Answer 49

- I. Computation of total income and tax payable by Dr. Rohan for A.Y. 2022-23 as per the regular provisions of the Act

	Particulars	₹	₹	₹
I	Income from house property			
	Annual value [Assuming residential property self-occupied]		Nil	
	Less: Deduction under section 24(b)			
	Interest on loan for repairs to property, ₹ 40,000, restricted to		30,000	
	Loss from self-occupied property			30,000
	[can be set-off against Profits and gains of business or profession or Income from other sources]			
	Profits and gains from business and profession			
	Gross Receipts			
	Fees from visits to other hospitals [5,85,000/90%]	6,50,000		
	Fees for March 2021 received in April 2021 [Fees for March 2021 is chargeable to tax during P.Y. 2021-22, since Dr. Rohan is following cash system of accounting] [40,000 + 45,000]	85,000		
	Fees received during the year	10,25,000		
	Gifts received from relatives of patients [taxable as business income]	45,000	18,05,000	
	Less: Permissible deductions			
	Salary to staff [Salary paid to his sister who is a qualified nurse in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000] [₹ 3,50,000 – ₹ 60,000]	2,90,000		
	Taxes and insurance	26,000		
	Entertainment expenses, including dinner to doctors [Assuming that the entire sum was incurred wholly and exclusively for business purpose]	1,10,000		
	Interest on loan for repair to property [to the extent relating to business] = ₹ 65,000 – ₹ 40,000, relating to residential property	25,000		
	Nursing home expenses	3,75,000		
	Professional fees paid for consulting services	1,20,000	9,46,000	
			8,59,000	
	Less: Depreciation under section 32 Nursing home equipment's [2,20,000 x 15%]	33,000		

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Note – Nursing home equipment would be eligible for depreciation @15%, being the general rate for plant and machinery. The main solution has, accordingly, been worked out applying 15%. However, if such equipment are in the nature of life saving medical equipment, they would be eligible for higher depreciation @40%. If 40% rate is applied, depreciation would be ₹ 88,000			
Medical books [35,000 x 40%]	14,000		
Laptop [40,000 x 40%]	16,000		
Television [48,000 x 15%, since the television is put to use for 180 days during the P.Y. 2021-22] Note - Television would be eligible for depreciation @15%. However, television connected to laptop or other medical equipment and used by Doctor may be classified as plant and machinery eligible for depreciation @40%. If 40% rate is applied, depreciation for TV would be ₹ 19,200. Also, it is possible to take a view that Television is furniture and fixtures qualifying for depreciation@10%. If 10% rate is applied, depreciation for TV would be ₹ 4,800.	7,200	70,200	7,88,800
Income from Other Sources			
Dividend from shares [18,900/90%]		21,000	
Honorarium for painting services in Jai Hind Art School [22,500/90%]		25,000	
Honorarium (Alternative without TDS) ₹ 22,500			
Note – In the question, it is mentioned that Dr. Rohan has received Honorarium for painting services in Jai Hind Art School (Net) of ₹ 22,500. Since the threshold limit for deducting tax at source under section 194J is ₹ 30,000, there is no requirement to deduct tax at source on such income. Accordingly, question can be answered without grossing up the amount of honorarium of ₹ 22,500.			
Interest on income-tax refund		1,500	
Income earned from gift to daughter in law [Income earned by daughter in law from asset gifted without consideration to her by Dr. Rohan is includible in the hands of Dr. Rohan]		10,000	57,500
Gross Total Income			8,16,300
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Deposits in PPF		55,000	
Deduction under section 80D Medical expenses to the extent of ₹ 50,000 since Dr. Rohan is a senior citizen (assuming		50,000	

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	he has not taken any medical insurance policy)			
	Deduction under section 80G Donation towards PM CARES Fund		10,000	1,15,000
	Total Income			7,01,300
	Tax Payable			
	Upto ₹ 5,00,000 [since Dr. Rohan is aged 80 years or above]		Nil	
	₹ 5,00,001 to ₹ 7,01,300 [₹ 2,01,300@20%]		40,260	
				40,260
	Add: HEC@4%			1,610
	Tax liability			41,870
	Less: TDS on fees from visits to other hospitals		65,000	
	TDS on dividend from shares		2,100	
	TDS on honorarium for painting services in Jai Hind art School		2,500	69,600
	Tax Refundable			27,730

II. Computation of total income and tax payable by Dr. Rohan for A.Y. 2022-23 if he opts for section 44ADA

	Particulars	₹	₹
I	Income from house property		
	Loss from self occupied property		(30,000)
II	Income from business or profession		
	Income from profession [18,05,000 x 50%] [No other expenditure or depreciation is allowed]		9,02,500
III	Income from Other Sources		57,500
	Gross Total Income		9,30,000
	Less: Deduction under Chapter VI-A		1,15,000
	Total Income		8,15,000
	Tax Payable		
	Upto ₹ 5,00,000	Nil	
	₹ 5,00,001 to ₹ 8,15,000 [3,15,000@20%]	63,000	
			63,000
	Less: HEC@4%		2,520
	Tax liability		65,520
	Less: TDS		69,600
	Tax Refundable		4,080
	Since tax refundable in case Dr. Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to opt for section 44ADA and get his books of account audited and declare income under the regular provisions.		

Question 50

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Paper 3 - Taxation

Mr. X, an employee of the Central Government is posted at New Delhi. He joined the service on 1st February, 2017. Details of his income for the previous year 2020-21, are as follows:

- (v) **Basic salary : ₹ 3,80,000**
- (vi) **Dearness allowance : ₹ 1,20,000 (40% forms part of pay for retirement benefits)**
- (vii) **Both Mr. X and Government contribute 20% of basic salary to the pension scheme referred to in section 80CCD.**
- (viii) **Gift received by X's minor son on his birthday from friend: ₹ 70,000. (No other gift is received by him during the previous year 2020-21)**
- (ix) **During the year 2013-14, Mr. X gifted a sum of ₹ 6,00,000 to Mrs. X. She started a business by introducing such amount as her capital. On 1st April, 2020, her total investments in business was ₹ 10,00,000. During the previous year 2020-21, she has loss from such business ₹ 1,30,000**
- (x) **Mr. X deposited ₹ 70,000 in Sukanya Samridhi account on 23.01.2021. He also contributed ₹ 40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.**
- (xi) **He has taken an educational loan for his major son who is pursuing MBA course from Gujarat University. He has paid ₹ 15,000 as interest on such loan which includes ₹ 5,000 for the financial year 2019-20.**

Determine the total income of Mr. X for the assessment year 2021-22. Ignore provisions under section 115BAC. (PYP 6 Marks Dec '21)

Answer 50

Computation of Total Income of Mr. X for A.Y. 2021-22

Particulars	Amount ₹	Amount ₹
Salaries		
Basic Salary	3,80,000	
Dearness Allowance	1,20,000	
Employer contribution to NPS = 20% of ₹ 3,80,000	76,000	
Less: Standard deduction [₹ 50,000 or ₹ 5,76,000, whichever is lower]	5,76,000	
	50,000	
		5,26,000
Profits and gains of business or profession		
Where the amount gifted by Mr. X (₹ 6 lakh, in this case) is invested by Mrs. X in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment as on 1.4.2020 to the total investment in the business (₹ 10 lakh) would be included in the income of Mr. X [loss of ₹ 1,30,000 x 6/10]	(78,000)	
Income from other sources		
All income of the minor son would be included in the income of the parent Mr. X, since his income is higher than the	70,000	
income of Mrs. X (loss of ₹ 52,000, based on the information given in the question). Accordingly, ₹ 70,000, being amount of gift received by minor son during the P.Y.2021-22, would be included in the income of Mr. X as the amount of gift exceeds ₹ 50,000.	1,500	
Less: Exemption in respect of income of minor child included in Mr. X's income		

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Paper 3 - Taxation

	68,500	
Less: Business loss of ₹ 78,000 set-off to the extent of	68,500	
(Balance business loss of ₹ 9,500 to be carried forward to the next year, since the same cannot be set-off against salary income)		
		Nil
Gross Total Income		5,26,000
Less: Deductions under Chapter VI-A		
Under section 80C – deposit in Sukanya Samridhi Account	70,000	
Under section 80CCC – Contribution to LIC Annuity Plan	40,000	
Under section 80CCD(1) – Employee contribution to NPS (₹ 76,000 – ₹ 50,000 deduction claimed u/s 80CCD(1B)], since it is lower than ₹ 42,800, being 10% of salary (₹ 3,80,000 + ₹ 48,000)	26,000	
Allowable in full, since less than ₹1,50,000, being the maximum permissible deduction u/s 80C, 80CCC & 80CCD(1)	1,36,000	
Under section 80CCD(1B) – Employee contribution to NPS	50,000	
Under section 80CCD(2) – Employer contribution to NPS restricted to 14% of basic salary + DA forming part of pay, since employer is Central Government = 14% x (₹ 3,80,000 + ₹ 48,000)	59,920	
Under section 80E – Interest paid on loan taken for higher education	15,000	2,60,920
Total Income		2,65,080

Notes - The following assumptions have been made while solving the question –

- Loan is taken from a financial institution or approved charitable institution, and hence, interest paid on such loan qualifies for deduction under section 80E.
- The question mentions that gift of ₹ 6 lakhs is given by Mr. X to Mrs. X during the P.Y.2013-14. However, the date of investment in business is not given. It has been assumed that it was invested between 2.4.2019 to 1.4.2020 for solving the problem, in the absence of other information in the question.

Question 51

Mr. Bhagat, an individual aged 50 years, set up a unit in Special Economic Zone (SEZ) in F.Y.2017-18 for the production of computers. The unit fulfils all the conditions of section 10AA of the Income-tax Act, 1961. During F.Y. 2021-22, he set up a hospital in a district of Maharashtra with 110 beds for patients. It fulfils all the conditions of section 35AD. Capital expenditure in respect of the said hospital amounted to ₹ 65 lakhs (comprising of cost of land ₹ 15 lakhs and the balance was the cost of construction of building). The hospital became operational with effect from 1st April, 2022 and the expenditure of ₹ 65 lakhs was capitalized in the books of accounts on that date Relevant details for F.Y. 2022-23 are as follows:

Particulars	Amount (₹ in lakhs)
Profit of unit located in SEZ	36
Export sales of SEZ unit	75
Domestic sales of SEZ unit	25

Paper 3 - Taxation

Profit form operation of hospital facility (before considering deduction under Section 35AD)

90

Compute the income-tax (including AMT under section 115JC and AMT credit, if any, under section 115JEE) payable by Mr. Bhagat for A.Y. 2023-24 under regular provisions of the Income-tax Act i.e. ignoring the provisions of section 115BAC. Ignore marginal relief, if any. (PYP 7 Marks May '23) (Same concept different figures Old & New SM)

Answer 51

Computation of total income and tax payable of Mr. Bhagat for A.Y.2023-24 (under the regular provisions of the Income-tax Act, 1961)

Particulars	₹	₹
Profits and gains of business or profession Profit from unit in SEZ		36,00,000
Profit from operation of hospital	90,00,000	
Less: Deduction u/s 35AD In this case, since the capital expenditure of ₹ 50 lakhs (i.e., ₹ 65 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2021-22 and capitalized in the books of account on 1.4.2022, being the date when the hospital became operational, the said amount would be eligible for deduction under section 35AD.	50,00,000	
Business income from hospital chargeable to tax		40,00,000
Gross Total Income		76,00,000
Less: Deduction u/s 10AA		13,50,000
Profit of SEZ unit x Export turnover of SEZ unit ----- Total turnover of SEZ unit = ₹ 36,00,000 x $\frac{75,00,000}{1,00,00,000}$ x 50% = ₹ 27,00,000 x 50% = ₹ 13,50,000 Deduction would be 50% of eligible profits, since P.Y.2022-23 is the 6 th year of operation	x 50%	
Total Income		62,50,000
Computation of tax payable (under the regular provisions of the Act)		₹
Tax on ₹ 62,50,000 [₹ 1,12,500 plus 30% of ₹ 52,50,000]		16,87,500
Add: Surcharge @10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		1,68,750
		18,56,250
Add: Health and Education cess@4%		74,250
Total tax payable		19,30,500

Computation of adjusted total income of Mr. Bhagat for levy of Alternate Minimum Tax

	₹
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Total Income (computed above as per regular provisions of income tax)		62,50,000
Add: Deduction under section 10AA		13,50,000
		76,00,000
Add: Deduction under section 35AD	50,00,000	
Less: Depreciation under section 32 On building @10% of ₹ 50 lakhs	5,00,000	45,00,000
Adjusted Total Income		1,21,00,000
Alternate Minimum Tax@18.5%		22,38,500
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore but does not exceed ₹ 2 crores)		3,35,775
		25,74,275
Add: Health and education cess@4%		1,02,971
		26,77,246
Tax liability u/s 115JC (rounded off)		26,77,250
Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax payable as per section 115JC is ₹ 26,77,250. AMT Credit to be carried forward under section 115JEE Tax liability under section 115JC	26,77,250	
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,30,500	

Section - B

Question 1

Compute the tax liability of Mr. Kashyap (aged 35), having total income of ₹ 51,75,000 for the A.Y. 2024-25. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit. Assume that Mr. Kashyap has exercised the option of shift out of the default tax regime under section 115BAC.

Answer 1

Computation of tax liability of Mr. Kashyap for the A.Y.2024-25

- (A) Income-tax (including surcharge) computed on total income of ₹ 51,75,000
 ₹ 2,50,000 – ₹ 5,00,000 @5% ₹ 12,500
 ₹ 5,00,001 – ₹ 10,00,000 @20% ₹ 1,00,000
 ₹ 10,00,001 – ₹ 51,75,000 @30% ₹ 12,52,500
 Total ₹ **13,65,000**
 Add: Surcharge @ 10% ₹ 1,36,500 ₹ 15,01,500
- (B) Income-tax computed on total income of ₹ 50 lakhs
 (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000) ₹ 13,12,500
- (C) Total Income Less ₹ 50 lakhs ₹ 1,75,000
- (D) Income-tax computed on total income of ₹ 50 lakhs
 plus the excess of total income over ₹50 lakhs(B +C) ₹ 14,87,500
- (E) **Tax liability: lower of (A) and (D)** ₹ 14,87,500
 Add: Health and education cess @4% ₹ 59,500
 Tax liability (including cess) ₹ **15,47,000**

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Paper 3 - Taxation

(F) Marginal Relief (A – D) ₹ 14,000

Alternative method -

(A)	Income-tax (including surcharge)		computed on total income of
	₹ 51,75,000		
	₹ 2,50,000 – ₹ 5,00,000@5%		₹ 12,500
	₹ 5,00,001 – ₹ 10,00,000@20%		₹ 1,00,000
	₹ 10,00,001 – ₹ 51,75,000@30%		<u>₹ 12,52,500</u>
	Total		₹ 13,65,000
	Add: Surcharge@10%		<u>₹ 1,36,500</u>
			₹ 15,01,500
(B)	Income-tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000)		<u>₹ 13,12,500</u>
(C)	Excess tax payable (A)-(B)		₹ 1,89,000
(D)	Marginal Relief (₹ 1,89,000 – ₹ 1,75,000, being the amount of income in excess of ₹ 50,00,000)		₹ 14,000
(E)	Tax liability (A)-(D)		₹ 14,87,500
	Add: Health and education cess @4%		<u>₹ 59,500</u>
	Tax liability (including cess)		<u>₹ 15,47,000</u>

Question 2

Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of ₹ 1,02,00,000 for the A.Y.2024-25. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

Answer 2

Computation of tax liability of Mr. Gupta for the A.Y.2024-25 under default tax regime

(A)	Income-tax (including surcharge) computed on total income of ₹ 1,02,00,000		₹ 3,00,000 – ₹ 6,00,000 @5%		₹ 15,000
			₹ 6,00,001 – ₹ 9,00,000 @10%		₹ 30,000
			₹ 9,00,001 – ₹ 12,00,000 @15%		₹ 45,000
			₹ 12,00,001 – ₹ 15,00,000 @20%		₹ 60,000
			₹ 15,00,001 – ₹ 1,02,00,000 @30%		<u>₹ 26,10,000</u>
			Total		₹ 27,60,000
			Add: Surcharge @ 15%		<u>₹ 4,14,000</u>
					₹ 31,74,000
(B)	Income-tax computed on total income of ₹ 1crore (₹ 1,50,000 plus ₹ 25,50,000)				₹ 27,00,000
	Add: Surcharge@10%				<u>₹ 2,70,000</u>
					<u>₹ 29,70,000</u>
(C)	Total Income Less ₹ 1crore				₹ 2,00,000
(D)	Income-tax computed on total income of ₹ 1 crore				

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₹ 3,00,000 – ₹ 6,00,000 @5%	15,000	
₹ 6,00,000 – ₹ 9,00,000 @10%	30,000	
₹ 9,00,000 – ₹ 12,00,000 @15%	45,000	
₹ 12,00,000 – ₹ 15,00,000 @20%	60,000	
₹ 15,00,000 – ₹ 3,30,00,000 @30%	94,50,000	96,00,000
		1,16,75,000
Add: Surcharge @15% on ₹ 20,75,000	3,11,250	
@25% on ₹ 96,00,000	24,00,000	27,11,250
		1,43,86,250
Add: Health and education cess @4%		5,75,450
Tax Liability		1,49,61,700

Computation of tax liability of Mr. Agarwal for the A.Y.2024-25 under normal provisions of the Act

Particulars		₹
Tax on total income of ₹ 4,50,00,000		
Tax@20% of ₹ 55,00,000		11,00,000
Tax@15% of ₹ 65,00,000		9,75,000
Tax on other income of ₹ 3,30,00,000		
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 3,30,00,000 @30%	96,00,000	97,12,500
		1,17,87,500
Add: Surcharge @15% on ₹ 20,75,000	3,11,250	
@25% on ₹ 97,12,500	24,28,125	27,39,375
		1,45,26,875
Add: Health and education cess @4%		5,81,075
Tax Liability		1,51,07,950

Question 4

Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain taxable under section 112 of ₹ 52,00,000, short term capital gain taxable under section 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2024-25. Assume that Mr. Kashyap has exercised the option of shift out of the default tax regime under section 115BAC.

Answer 4

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Computation of tax liability of Mr. Sharma for the A.Y.2024-25 under normal provisions of the Act

Particulars		₹
Tax on total income of ₹ 2,30,00,000		
Tax@20% of ₹ 52,00,000		10,40,000
Tax@15% of ₹ 64,00,000		9,60,000
Tax on other income of ₹ 1,14,00,000		
₹ 3,00,000 – ₹ 5,00,000 @5%	10,000	
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 1,14,00,000 @30%	31,20,000	32,30,000
		52,30,000
Add: Surcharge @15%		7,84,500
		60,14,500
Add: Health and education cess @4%		2,40,580
Tax Liability		62,55,080

Question 5

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2023 and came to India for the first time on 16.03.2023. She left for USA on 19.9.2023. She returned to India again on 27.03.2024. While in India, she had purchased a show room in Mumbai on 30.04.2023, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2023. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2024. She had received the following cash gifts from her relatives and friends during 1.4.2023 to 31.3.2024:

- From parents of husband ₹ 51,000
- From married sister of husband ₹ 11,000
- From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000)

- (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the A.Y. 2024-25 if she opts out of the default tax regime under section 115BAC.
- (b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?

Answer 5

(a) Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:

- (i) He/she has been in India during the previous year for a total period of 182 days or more, or
- (ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

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If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident. Therefore, the residential status of Miss Charlie, an American National, for A.Y. 2024-25 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2024-25 i.e., P.Y. 2023-24 and in the preceding four assessment years.

Her stay in India during the P.Y. 2023-24 and in the preceding four years are as under:

P.Y. 2023-24

01.04.2023 to 19.09.2023	-	172
27.03.2024 to 31.03.2024		days
Total	-	<u>5</u>
Four preceding previous years		<u>days</u>
		<u>177</u>
		<u>days</u>
P.Y. 2022-23 [1.4.2022 to 31.3.2023]	-	16 days
P.Y. 2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y. 2020-21 [1.4.2020 to 31.3.2021]	-	Nil
P.Y. 2019-20 [1.4.2019 to 31.3.2020]	-	<u>Nil</u>
Total		<u>16 days</u>

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the A.Y. 2024-25.

Computation of total income of Miss Charlie for the A.Y. 2024-25

Particulars		₹	₹
Income from house property			
Show room located in Mumbai remained on rent from 01.05.2023 to 31.03.2024 @ ₹ 25,000/- p.m. Gross Annual Value [₹ 25,000 x 11] (See Note 1 below)		2,75,000	
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		2,75,000	
Less: Deduction under section 24			
30% of NAV		82,500	
Interest on loan		97,500	1,80,000
Income from other sources			
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.			95,000

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- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)	1,72,000	1,72,000
Total income		2,67,000

Computation of tax liability by Miss Charlie for the A.Y. 2024-25 under normal provisions of the Act

Particulars	₹
Tax on total income of ₹ 2,67,000 Add: Health and Education cess@4%	850 34
Total tax liability	884
Total tax liability(rounded off)	880

Notes:

- Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
- If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).
- Since Miss Charlie is a non-resident for the A.Y. 2024-25, rebate under section 87A would not be available to her, even though her total income does not exceed ₹ 5 lacs.

(b) Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 18,00,000 If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2023-24 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous

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year 2023-24.

Question 6

Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2024 is as under:

Expenditure		1B₹		Incom e	2B₹
To	Medicine consumed	35,38,400	B y	Consultation and medical charges	58,85,850
To	Staff salary	13,80,000	B y	Income-tax refund	5,450
				(principal ₹ 5,000, interest ₹ 450)	
To	Clinic consumables	1,10,000	B y	Dividend from units of UTI (Gross)	10,500
To	Rent paid	90,000	B y	Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To	Administrative expenses	2,55,000	B y	Rent	27,000
To	Amount paid to scientific research association approved u/s 35	1,50,000			
To	Net profit	4,40,400			
		59,63,800			59,63,800

- (i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
1.4.2023 Opening W.D.V. - ₹ 5,00,000
7.12.2023 Acquired (cost) by cheque - ₹ 2,00,000
- (iii) Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2023, has been included in "administrative expenses".
- (iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2023-24.

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- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- (vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2024 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act.

Answer 6

Computation of total income of Dr. Niranjana for A.Y. 2024-25 under default tax regime

	18BParticulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		50,000	40,000
19BII	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24@30% of ₹ 25,000		7,500	17,500
20BII	Income from profession			
	Net profit as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from house property")	27,000		
	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	10,500		
	(iii) Winning from game show on T.V.(net of TDS) – taxable under the head "Income from	35,000		

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	other sources”			
	(iv) Income tax refund	5,450	77,950	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on ₹ 5,00,000@15%	75,000		
	on ₹ 2,00,000@7.5%	15,000	90,000	
	(On equipments acquired during the year in December 2023, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
			2,72,450	
	Add: Items of expenditure not allowable while computing business income			
	(i) Amount paid to scientific research association approved u/s 35 (not allowed under default tax regime)	1,50,000		
	(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
IV	Income from other sources			
	(a) Interest on income-taxrefund		450	
	(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
	(c) Winnings from TV game show (₹ 35,000 + ₹ 15,000)		50,000	60,950
	Gross Total Income			5,72,900
	Less: Deductions under Chapter VI-A:			

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	(a) Section 80C [Not allowed under default tax regime]			Nil
	(b) Section 80D [Not allowed under default tax regime]			Nil
	(c) Section 80E [Not allowed under default tax regime]			Nil
	Total income			5,72,900

**Computation of total income of Dr. Niranjana for
A.Y. 2024-25 under normal
provisions of the Act**

	18B Particulars	₹	₹
	Gross Total Income as per default tax regime		5,72,900
	Less: Items of expenditure allowable while computing business income under normal provisions of the Act		
	100% deduction is allowable in respect of		1,50,000
	the amount paid to scientific research		
	association allowable under normal provisions of the Act.		
	Gross Total Income as per normal provisions of the Act		4,22,900
	Less: Deductions under Chapter VI-A:		
	(a) Section 80C - Tuition fee paid to university for full time education of her daughter	1,00,000	
	(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)	28,000	
	(c) Section 80E - Interest on loan taken for higher education is deductible	55,000	1,83,000
	Total income		2,39,900

Notes:

- (i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- (ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject

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- to tax @30% as per section 115BB.
- (iii) Dr. Niranjana would not be eligible for deduction u/s 80GG under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

Question 7

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2024 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
Incentive to articled Assistants	13,000	Taxation services	15,40,300	
Office rent	12,24,000	Consultancy	12,70,000	55,98,300
Printing and stationery	12,22,000	Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Meeting, seminar and conference	80,000	Income from UTI(Gross)		7,600
Purchase of car (for official use)	5,25,000	Honorarium received from various institutions for valuation of answer papers		15,800
Repair, maintenance and petrol of car	3,000	Rent received from residential flat let out		85,600
Travelling expenses	9,28,224			
Municipal tax paid in respect of				

Paper 3 - Taxation

house			
property			
Net Profit			
	57,17,824		57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2023 to 30-09-2024.
- (v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- (viii) She invested an amount of ₹ 10,000 in National Saving Certificate.
- (ix) She has paid ₹ 70,000 towards advance tax during the P.Y. 2023-24.

Compute the total income and tax payable by Ms. Purvi for the A.Y. 2024-25 in a most beneficial manner.

Answer 7

Computation of total income and tax payable by Ms. Purvi for the A.Y. 2024-25 under default tax regime under section 115BAC

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-
Total Income		
Total Income (rounded off)		10,11,944
Tax on total income		
Upto ₹ 3,00,000	1	4
₹ 3,00,001 - ₹ 6,00,000 @5%	15,00	10,11,944
₹ 6,00,001 - ₹ 9,00,000 @10%	0	0
₹ 9,00,001 - ₹ 10,11,940 @ 15%	30,000	
Add: Health and Education cess @ 4%	16,791	
Total tax liability		
Less: Advance tax paid		61,791
Less: Tax deducted at source on dividend income from an Indian company u/s 194		2,472
Tax deducted at source on income from UTI u/s		

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Paper 3 - Taxation

194K		
Tax Payable/ (Refundable)		64,263
Tax Payable/ (Refundable) (rounded off)	1,052	70,000
	760	1,812
		(7,549)
		(7,550)

Computation of total income and tax payable under normal provisions of the Act

Particulars	₹	₹
Gross Total Income [Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		10,11,944
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		10,01,944
Total Income (rounded off)		10,01,940
Tax on total income		
Upto ₹ 2,50,000	Ni	
₹ 2,50,001 – ₹ 5,00,000 @5%	1	
₹ 5,00,000 - ₹ 10,00,000 @20%	12,50	
₹ 10,00,000 – ₹ 10,01,940 @ 30%	0	
Add: Health and Education cess @ 4%	1,00,000	
Total tax liability	582	
Less: Advance tax paid		1,13,082
Less: TDS u/s 194 on dividend		4,523
TDS u/s 194K on income from UTI		
Tax Payable (rounded off)		1,17,605
	1,052	70,000
	760	1,812
		45,793
		45,790

Since there is tax refundable under default tax regime under section 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it

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Paper 3 - Taxation

would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

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

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash	30,000	
disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000		
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(ii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	

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(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

Notes :

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).
Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).
- (ii) Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2024 to 30.9.2024 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

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Paper 3 - Taxation

Question 8

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2024 revealed the following information:

- (1) The net profit was ₹ 11,20,000.
- (2) The following incomes were credited in the profit and loss account:
 - (a) Income from UTI ₹ 22,000 (Gross)
 - (b) Interest on debentures ₹ 17,500 (Gross)
 - (c) Winnings from horse races ₹ 15,000 (Gross)
- (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
Opening stock ₹ 8,000. Closing stock ₹ 12,000.
- (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- (5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- (7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
- (8) Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2024 for distribution of the company's product to the warehouses.
- (9) Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
- (10) Drawings of ₹ 10,000 debited in the books.
- (11) Investment in NSC ₹ 15,000 debited in the books.

Compute the total income of Mr. Y for the assessment year 2024-25 under optional tax regime as per normal provisions of the Act.

Answer 8

Computation of total income of Mr. Y for the A.Y. 2024-25

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	11,21,500
Income from other sources (See Working Note 2 below)	54,500
Gross Total Income	11,76,000
Less: Deduction under section 80C (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:

Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss account but not allowable as deduction		

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Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable ($\text{₹ } 78,000 \times \frac{1}{4}$)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
Add: Under statement of closing stock		12,000
		12,34,000
Less: Under statement of opening stock		8,000
Less: Contribution to a University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
		12,26,000
Less: Incomes credited to profit and loss account but not taxable as business income	22,000	
Income from UTI [taxable under the head "Income from other sources"]	17,500	
Interest on debentures (taxable under the head "Income from other sources")	15,000	
Winnings from horse races (taxable under the head "Income from other sources")		54,500
		11,71,500
Less: Depreciation allowable under the Income-tax Rules, 1962		50,000
		11,21,500

Notes:

- (i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- (ii) Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance under section 40A(3))
- (iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- (iv) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said

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figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

Computation of "Income from Other Sources"

Particulars	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

Question 9

Balamurugan furnishes the following information for the year ended 31-03-2024:

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	2,70,000
Long term capital gain u/s 112	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime under section 115BAC.

Answer 9

Computation of total income of Balamurugan for the year ended 31.03.2024

Particulars	₹	₹
Salaries	2,70,000	
Less: Loss from house property (Cannot be set off against income under any other head)	-	2,70,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss of ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	

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Less: Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		8,05,000

Computation of tax liability for A.Y.2024-25

Particulars	₹
On total income of ₹ 2,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of ₹ 5,000 @20% (balance unexhausted basic exemption limit of ₹ 30,000 can be adjusted against LTCG taxable u/s 112)	1,000
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
	1,51,000
Add: Health and Education cess @ 4%	6,040
Total tax liability	1,57,040

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 6,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Note - The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2024. The first proviso to section 234C(1) would be attracted only in case of non- deduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B has been fully deducted from lottery income. Since the remaining tax liability of ₹ 1,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Question 10

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2023-24.

Receipts and Payments Account

Receipts	₹	Payments	₹
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Paper 3 - Taxation

Opening balance (1.4.2023) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articulated clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2024 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife) (paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2023 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2023 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance	19,15,000

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Paper 3 - Taxation

		(31.3.2024) Cash on hand	
		and at Bank	
	62,50,000		62,50,000

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2023 are given below:
 Furniture & Fittings ₹ 60,000
 Plant & Machinery ₹ 80,000
 (Air-conditioners, Photocopiers, etc.)
 Computers ₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the A.Y. 2024-25 assuming that he has shifted out of the default tax regime under section 115BAC.

Answer 10

Computation of total income of Mr. Rajiv for the A.Y.2024-25

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b)			
Interest on housing loan			
50% of ₹ 88,000 = 44,000 but limited to	30,000		
Loss from self-occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions u/s 24			
30% of Net Annual Value	18,000		
0			
Interest on housing loan (50% of ₹ 88,000)	44,000	62,000	(2,000)
0			
Loss from house property			(32,000)

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Paper 3 - Taxation

Profits and gains of business or profession			
Fees from professional services		59,38,000	
Less: Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
		26,02,000	
Less: Depreciation			
Motor car ₹ 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications@40%	8,000		
Furniture and fittings@10% of ₹ 60,000	6,000		
Plant and machinery@15% of ₹ 80,000	12,000		
Computer@40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% x 50%	6,000	77,500	25,24,500
Gross Total income			24,92,500
Less: Deductions under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid		18,000	1,62,000
Total income			23,30,500

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Paper 3 - Taxation

Question 11

From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y.2024-25. Advise Mr. Siddhant whether he should opt for section 115BAC:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- House Insurance ₹ 860
- He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- In the year 2020-21, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.
- Siddhant received a gift of ₹ 30,000 each from four friends.
- He contributed ₹ 50,000 to Public Provident Fund.

Answer 11

Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2024-25

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
Less: Standard deduction under section 16(ia)		50,000
		4,23,000

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Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(i) 30% of NAV ₹ 11,310		
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2] ₹ 24,000	35,310	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700	2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
Gross Total Income		5,54,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		5,54,890

Particulars	₹
Tax on total income [5% of ₹ 2,54,890 (₹ 5,54,890 - ₹ 3,00,000)]	12,745
Less: Rebate u/s 87A, since total income does not exceed ₹ 7,00,000	
	12,745

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Paper 3 - Taxation

Tax liability	Nil
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**Computation of total income and tax liability of Siddhant for the
A.Y. 2024-25 under normal provisions of the Act**

Particulars	₹	₹
Gross total income (as per default scheme)		5,54,890
Less: Exemption u/s 10(32) in respect of interest		
income of minor son included in the hands of Siddhant		1,500
Gross total income (under the normal provisions of the Act)		5,53,390
Less: Deductions under Chapter VI-A		
Under section 80C [Contribution to PPF]		50,000
Total Income		5,03,390

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 3,390]	13,178
Add: HEC @4%	527
Tax liability	13,705
Tax liability (Rounded off)	13,710

Since his total income as per the normal provisions of the Act exceeds ₹ 5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to **not** to exercise the option of shift out of the default tax regime for A.Y.2024-25.

Notes:

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2024;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Question 12

Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2024:

- **Basic Salary** ₹ 15,000 p.m.
- **DA (50% of it is meant for retirement benefits)** ₹ 12,000 p.m.
- **Commission as a percentage of turnover of the Company** 0.5 %
- **Turnover of the Company** ₹ 50 lacs
- **Bonus** ₹ 50,000
- **Gratuity** ₹ 30,000
- **Own Contribution to R.P.F.** ₹ 30,000

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Paper 3 - Taxation

- **Employer's contribution to R.P.F. 20% of basic salary**
- **Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000**
- **Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.**
- **Music System purchased on 01.04.2023 by the company for ₹ 85,000 and was given to him for personal use.**
- **Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.**
- **Received interest of ₹ 5,860 on bank FDRs on 24.4.2023 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2023.**
- **Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.**
- **Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.**
- **Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.**

Compute his total income and tax payable thereon for the A.Y. 2024-25. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

Answer 12

**Computation of Total Income of Mr. Ramdin for the A.Y.2024-25
under normal provisions of the Act**

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		2,760
Actual contribution [20% of ₹ 1,80,000]	36,000	5,500
Less: Exempt (See Note 2)	33,240	10,000
Interest credited in recognized provident fund account @15% p.a.	15,000	8,500
Less: Exempt upto 9.5% p.a.	9,500	
Gift of gold ring worth ₹ 10,000 on 25 th wedding anniversary by employer (See Note 3)		
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		
		4,55,760

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Paper 3 - Taxation

Less: Standard deduction under section 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	7,540	13,400
Gross total Income		5,99,160
Less: Deductions under Chapter VI-A		
14BSection 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500
Section 80G (See Note 4)		10,600
Total Income		4,40,690
Tax on total income		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)]		9,535
Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		9,535
Tax liability		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		754
Net tax refundable		754
Tax refundable (rounded off)		750

Paper 3 - Taxation

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
 $= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$
 $= 12\% \text{ of } 2,77,000 = \text{₹ } 33,240$
- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.
- Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income - Deductions under section 80C and 80D = ₹ 5,99,160 = ₹ 1,47,870 = ₹ 4,51,290.

Question 13

From the following particulars furnished by Mr. X for the year ended 31.3.2024, you are requested to compute his total income and tax payable for the assessment year 2024-25, assuming that he opts out of the default tax regime under section 115BAC.

- Mr. X retired on 31.12.2023 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
- After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2024.
- Mr. X has deposited ₹ 1,00,000 in public provident fund.

Answer 13

Computation of total income of Mr. X for A.Y.2024-25

Particulars	₹	₹
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Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less : Exemption under section 10(13A)(Note 1)	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) (Note 2)	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as		
the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
Less : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,63,000
Tax on total income (Nil, since it is lower than the basic exemption limit of ₹ 2,50,000)		Nil

Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹
(i) HRA actually received (₹ 6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (₹ 6,500 - ₹ 2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500

- (2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

	₹

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(i) Actual amount received			3,50,000
(ii) Half month salary for each year service [(₹ 25,000 x 15/26) x 26 years]	of	completed	3,75,000
(iii) Statutory limit			20,00,000

(3) Leave encashment is exempt upto the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 24,500 x 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,18,500
(iv) Statutory limit	25,00,000

(4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	= <u>15 days/year x 26 = 390 days</u>
Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 390 × ₹ 24,500/30 = ₹ 3,18,500

Question 14

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2024:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000

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2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaim policy premium paid by A/c PayeeCheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2024-25 and tax thereon assuming both exercised the option to shift out of the default tax regime.

Answer 14

Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y.2024-25

S. No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		₹	₹
(I)	Salaries		
	Pension received from State Govt.	₹ 60,000	
	Less: Standard deduction u/s 16(ia)	₹ 50,000	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
(II)	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction under section 24(a)@30%	18,000	9,000
		42,000	21,000
(III)	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which	20,000	2,50,000

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Paper 3 - Taxation

	STT was paid		
		1,20,000	3,50,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
	1. LIC Premium paid	-	10,000
	Premium paid to Canadian Life Insurance Corporation	40,000	-
	3. Deposit in PPF	-	20,000
		40,000	30,000
2.	Deduction under section 80D – Mediclaim premium paid		25,000
		40,000	55,000
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gain taxable under sections 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	3,50,000
	Tax liability of Mrs. Rosy for A.Y.2024-25		
	Tax on long-term capital gains @20% of ₹ 1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2022-23		
	Tax on STCG @15% of ₹ 1,00,000 [i.e. ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
	Less: Rebate under section 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
			2,500
	Add: Health and Education cess@4%	920	100
	Total tax liability	23,920	2,600

Notes:

- (1) Long-term capital gains on sale of land is chargeable to tax@20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is 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, the long-term capital gains u/s

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112/short-term capital gains u/s 111A 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. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.

- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹ 2,50,000 – ₹ 1,50,000) against short-term capital gains.
- (5) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the A.Y. 2024-25.

Question 15

Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2022-23, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2023 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2023-24 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2024	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2024-25 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2024-25. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

Answer 15

Computation of total income and tax liability of Mr. X for A.Y. 2024-25 (under default tax regime under section 115BAC)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility		

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Paper 3 - Taxation

Less: Depreciation under section 32 On building @10% of ₹ 65 lakhs ⁴ (normal depreciation under section 32 is allowable)	1,05,00,00 0	
Total Income	6,50,000	98,50,000
Computation of tax liability as per section 115BAC		1,38,50,000
Tax on ₹ 1,38,50,000		
Add: Surcharge@15%		38,55,000
Add: Health and Education cess@4%		5,78,250
Total tax liability		44,33,250
		1,77,330
		46,10,580

Notes:

- (1) Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Mr. X is **not** liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

**Computation of total income and tax liability of Mr. X
for A.Y.2024-25 (under the regular provisions of
the Income-tax Act, 1961)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See Note (1) below]	32,00,000	
Business income of SEZ unit chargeable to tax		8,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		48,00,000
Computation of tax liability (under the normal/regular provisions)		
Tax on ₹ 48,00,000		12,52,500
Add: Health and Education cess@4%		50,100
Total tax liability		13,02,600

**Computation of adjusted total income of Mr. X for levy of
Alternate Minimum Tax**

Particular	₹	₹
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Paper 3 - Taxation

s		
Total Income (computed above as per regular provisions of income tax)		48,00,000
Add: Deduction under section 10AA		32,00,000
		80,00,000
Add: Deduction under section 35AD		65,00,000
Less: Depreciation under section 32		
On building @10% of ₹65 lakhs ⁵		6,50,000
		58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
Tax liability u/s 115JC (rounded off)		30,64,450

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **to opt out of the default tax regime under section 115BAC for A.Y. 2024-25**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	13,02,600
	17,61,850

Notes:

- (1) Deduction under section 10AA in respect of Unit in SEZ =
- (2) Deduction@100% of the capital expenditure is available under section 35AD for A.Y. 2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.
- (3) Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the

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amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

- (4) Deduction under section 35AD would, however, **not** be available on expenditure incurred on acquisition of land.
- (5) In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs
- (6) – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2022-23 and capitalized in the books of account on 1.4.2023, being the date when the warehouse became operational,
- (7) ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.

Question 16 Illustration

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 50,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the P.Y. 2023-24. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2024 and his parents live in that house.

Other Information

- Contribution to PPF - ₹ 1,50,000
- Contribution to pension scheme referred to in section 80CCD - ₹ 50,000
- Payment of medical insurance premium for father, who is of the age of 65 - ₹ 55,000
- Payment of medical insurance premium for self and spouse - ₹ 32,000

Compute the total income and tax liability of Mr. A for the A.Y. 2024-25 in the most beneficial manner.

Answer 16

Computation of total income and tax liability of Mr. A for A.Y. 2024-25 under default tax regime under section 115BAC

Particulars	₹
Salaries	
Basic Salary [₹ 50,000 x 12]	6,00,000
Transport allowance [₹ 15,000 x 12]	1,80,000
HRA received [₹ 20,000 x 12]	2,40,000
Gross salary	10,20,000
Less: Standard deduction u/s 16(ia)	(50,000)
	9,70,000
Income from house property	
Interest on housing loan	-
Gross Total Income	9,70,000

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Less: Deductions under Chapter VI- A		
Section 80C		
Contribution in PPF		-
Section 80CCD		
Contribution to pension scheme		-
Section 80D		
Mediclaim insurance premium for self and parents		-
Total Income		9,70,000
Tax liability		
Tax @5% on ₹ 3,00,000 [₹ 6,00,000 - ₹ 3,00,000]	15,000	
Tax @10% on ₹ 3,00,000 [₹ 9,00,000 - ₹ 6,00,000]	30,000	
Tax@15% on ₹ 70,000 [₹ 9,70,000 - ₹ 9,00,000]	10,500	55,500
Add: Health & Education cess @ 4%		2,220
Total Tax Liability		57,720

**Computation of total income and tax liability of Mr. A
for A.Y. 2024-25 under normal
provisions of the Act**

Particulars	₹
Salaries	
Basic Salary [₹ 50,000 x 12]	6,00,000
Transport allowance [₹ 15,000 x 12]	1,80,000
HRA received	2,40,000
Less: Least of the following exempt u/s 10(13A)	2,40,000
HRA Received	2,40,000
Actual rent paid - 10% of salary	2,40,000
[₹ 3,00,000 - ₹ 60,000]	
50% of salary	3,00,000
Gross salary	7,80,000
Less: Standard deduction u/s 16(ia)	(50,000)
	7,30,000
Income from house property	
[Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to ₹ 2,00,000, in case of self-	(2,00,000)

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occupied		
property, which would represent loss from house property]		
Gross Total Income		5,30,000
Less: Deductions under Chapter VI-A		
Section 80C		
Contribution to PPF		1,50,000
Section 80CCD(1B)		
Own contribution to pension scheme		50,000
Section 80D		
Mediclaim insurance premium		
For self and spouse, restricted to	25,000	
For father, who is a senior citizen, restricted to	50,000	
		75,000
Total Income		2,55,000
Tax liability		
Tax @ 5% on ₹ 5,000 [₹ 2,55,000 - ₹ 2,50,000]		250
Less: Rebate u/s 87A		250
Total Tax Liability		-

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2024-25.

Note: In this case, Mr. A is entitled to exemption u/s 10(13A), benefit of interest on housing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by ₹ 7,15,000. His total income under the regular provisions of the Act is less than ₹ 5,00,000, owing to which he becomes entitled to rebate u/s 87A. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2024-25.

Question 17 Illustration (new)

Mr. Kadam is entitled to a salary of ₹ 40,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

Answer 17**Computation of tax liability of Kadam under both the options**

Particulars	Option I	Option II
	- HRA (₹)	- RFA (₹)

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Basic Salary (₹ 40,000 x 12 Months)	4,80,000	4,80,000
Perquisite value of rent-free accommodation (15% of ₹ 4,80,000)	N.A.	72,000
House rent Allowance (₹ 7,000 x 12 Months) ₹ 84,000 Less: Exempt u/s 10(13A) – least of the following - - 50% of Basic Salary ₹ 2,40,000 - Actual HRA received ₹ 84,000 - Rent paid less 10% of salary ₹ 24,000 ₹ 24,000	60,000	
Gross Salary	5,40,000	5,52,000
Less: Standard deduction u/s 16(ia)	50,000	50,000
Net Salary	4,90,000	5,02,000
	-	-
Less: Deduction under Chapter VI-A		
Total Income	4,90,000	5,02,000
Tax on total income	12,000	12,900
Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,000, since total income does not exceed ₹ 5,00,000	12,000	Nil
	Nil	12,900
Add: Health and Education cess@4%	Nil	516
Tax liability	Nil	13,416
Tax liability (Rounded off)	Nil	13,420

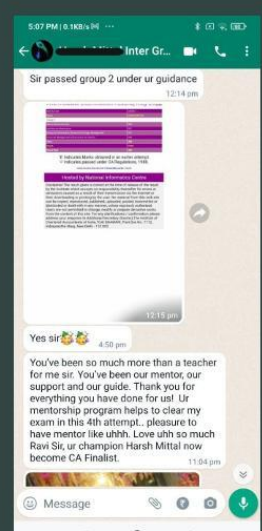
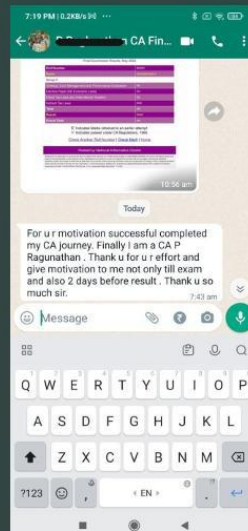
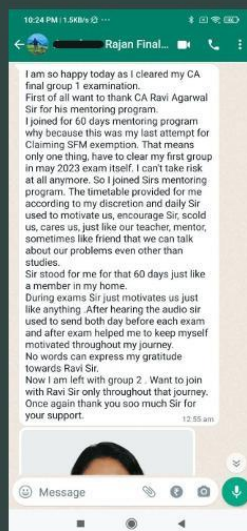
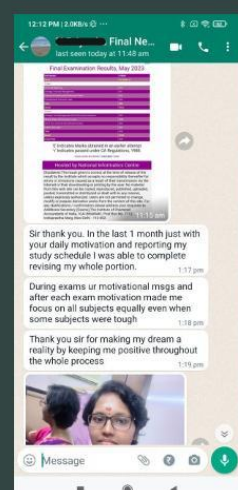
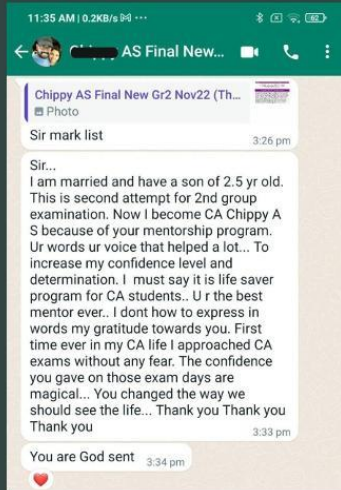
Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,64,000	4,80,000
Less: Outflow: Rent paid	(72,000)	-
Tax on total income	Nil	(13,420)
Net Inflow	4,92,000	4,66,580

Since the net cash inflow under option I (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kadam to avail Option I, i.e., House Rent Allowance.

Paper 3 - Taxation

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Paper 3 - Taxation

Chapter 1 GST in India- An Introduction

Attempt wise Distribution

Attempts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan'21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q3, Q6	Q4								Q1
RTP							Q2,Q 5					
Q & A												
MTP	Q3	Q5, Q8					Q1	Q4, Q7				
PYP	Q2	Q6										

Section A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. provides that no tax shall be levied or collected except by authority of law.
- Article 269
 - Article 245
 - Article 265
 - Article 246 (MTP 1 Mark, Sep'23)

Ans: (C)

2. Goods as per section 2(52) of the CGST Act, 2017 includes:
- Actionable claims
 - Growing crops attached to the land agreed to be severed before supply.
 - Money
 - Securities
- (i) and (iii)
 - (iii) and (iv)
 - (i) and (ii)
 - (ii) and (iii) (RTP May'21)

Ans: (c)

3. Taxes subsumed in GST are
- Service tax
 - Luxury tax
 - VAT

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d) All of the Above **(MTP 1 Mark, March'19, May'20)**

Ans: (d)

4. Alcoholic liquor for human consumption is subjected to

- a) State excise duty
- b) Central Sales Tax/Value Added Tax
- c) Both (a) and (b)
- d) GST **(MTP Oct'19, MTP Mar'19, MTP May'21 1 Mark)**

Ans: (c)

5. Various taxes have been subsumed in GST to make one nation one tax one market for consumers. Out of the following, determine which taxes have been subsumed in GST.

- (i) **Basic customs duty levied under Customs Act, 1962**
- (ii) **Taxes on lotteries**
- (iii) **Environment tax**

- a) (ii)
- b) (ii) and (iii)
- c) (iii)
- d) (i), (ii) and (iii) **(RTP May'21)**

Ans: (a)

6. Which of the following statements is true under GST?

- a) Grand-parents are never considered as related persons to their grandson/granddaughter
- b) Grand-parents are always considered as related persons to their grandson/granddaughter
- c) Grand-parents are considered as related persons to their grandson/granddaughter only if they are wholly dependent on their grandson/granddaughter
- d) None of the above **(MTP 1 Mark, April'19)**

Ans: (c)

Question & Answer

Question 1

Briefly explain the leviability of GST or otherwise on petroleum crude, diesel, petrol, Aviation Turbine Fuel (ATF) and natural gas. (MTP 5 Marks March'21)

Answer 1

Petroleum crude, diesel, petrol, ATF and natural gas are presently not leviable to GST. GST will be levied on these products from a date to be notified on the recommendations of the GST Council. Till such date, central excise duty continues to be levied on

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manufacture/production of petroleum crude, diesel, petrol, ATF and natural gas and inter-State/intra-State sale of the same is subject to CST/ VAT respectively.

Question 2

List any four state levies, which are subsumed in GST. (PYP 3 Marks May '18)

Answer 2

The State levies which are subsumed in GST are as under: -

- State surcharges and cases in so far as they relate to supply of goods & services
- Entertainment Tax (except those levied by local bodies)
- Tax on lottery, betting and gambling
- Entry Tax (All Forms) & Purchase Tax
- VAT/ Sales tax
- Luxury Tax
- Taxes on advertisements

Note: Any of the four points may be mentioned.

Question 3

Discuss any two significant benefits of GST. (MTP 2 Marks March'18)

Answer 3

GST is a win-win situation for the entire country. It brings benefits to all the stakeholders of industry, Government and the consumer. It will lower the cost of goods and services, give a boost to the economy and make the products and services globally competitive.

The significant benefits of GST are discussed hereunder:

- **Creation of unified national market:** GST aims to make India a common market with common tax rates and procedures and remove the economic barriers thus paving the way for an integrated economy at the national level.
- **Mitigation of ill effects of cascading:** By subsuming most of the Central and State taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain, it would mitigate the ill effects of cascading, improve competitiveness and improve liquidity of the businesses.
- **Elimination of multiple taxes and double taxation:** GST has subsumed majority of existing indirect tax levies both at Central and State level into one tax i.e., GST which is levied uniformly on goods and services. This will make doing business easier and will also tackle the highly-disputed issues relating to double taxation of a transaction as both goods and services.
- **Boos to 'Make in India' initiative:** GST will give a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the national as well as international market.
- **Buoyancy to the Government Revenue:** GST is expected to bring buoyancy to the Government Revenue by widening the tax base and improving the taxpayer compliance.

(Note: Any two points may be mentioned)

Question 4

Write a short note on various Lists provided under Seventh Schedule to the Constitution of India. (MTP 5 Marks, Oct'21)

Answer 4

Seventh Schedule to Article 246 of the Constitution contains three lists which enumerate the matters under which the Union and the State Governments have the authority to make laws.

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- (i) List -I (UNION LIST): It contains the matters in respect of which the Parliament (Central Government) has the exclusive right to make laws.
- (ii) List -II (STATE LIST): It contains the matters in respect of which the State Government has the exclusive right to make laws.
- (iii) List -II (CONCURRENT LIST): It contains the matters in respect of which both the Central & State Governments have power to make laws.

Question 5

Discuss any two functions of GSTN. (MTP 2 Marks Aug'18)

Answer 5

The functions of the GSTN include:

- facilitating registration;
- forwarding the returns to Central and State authorities;
- computation and settlement of IGST;
- matching of tax payment details with banking network;
- providing various MIS reports to the Central and the State Governments based on the taxpayer return information;
- providing analysis of taxpayers' profile; and running the matching engine for matching, reversal and reclaim of input tax credit.

Question 6

List any four Central levies, which are subsumed in GST. (PYP 2 Marks, Nov'18)

Answer 6

The Central levies which are subsumed in GST are as under: -

- (a) Central Excise Duty & Additional Excise Duties
- (b) Service tax
- (c) Excise duty under Medicinal & Toilet Preparation Act
- (d) CVD
- (e) Special CVD
- (f) Central Sales Tax
- (g) Central surcharges and cases in so far as they relate to supply of goods & services

Note: Any of the four points may be mentioned

Question 7

GST is a simplified tax structure. Justify the statement. (MTP 4 Marks Nov'21, MTP 5 Marks April'21)

Answer 7

GST is a simplified tax structure. The statement is justified. Simpler tax regime with fewer exemptions along with reduction in multiplicity of taxes under GST has led to simplification and uniformity in tax structure. The uniformity in laws, procedures and tax rates across the country makes doing business easier. Common system of classification of goods and services across the country ensures certainty in tax administration across India.

Question 8

List any four state levies, which are subsumed in GST. (MTP 2 Marks, Oct'18)

Answer 8

The State levies which are subsumed in GST are as under: -

- State surcharges and cases in so far as they relate to supply of goods & services
- Entertainment Tax (except those levied by local bodies)
- Tax on lottery, betting and gambling

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- Entry Tax (All Forms) & Purchase Tax
- VAT/ Sales tax
- Luxury Tax
- Taxes on advertisements

Note: Any of the four points may be mentioned.

Section B

Question 1

List some of the benefits that GST may accrue to the economy.

Answer 1

GST may accrue following benefits to the economy:

- Creation of unified national market:** GST aims to make India a common market with common tax rates and procedures and remove the economic barriers, thereby paving the way for an integrated economy at the national level.
- Boost to 'Make in India' initiative:** GST may give a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the national as well as international market. This would make India a manufacturing hub.
- Boost to investments, exports and employment:** Under the GST regime, the principle of exporting only the cost of goods or services and not taxes is being followed. This may boost Indian exports thereby improving the balance of payments position. Exporters are being facilitated by grant of provisional refund of 90% of their claims within 7 days of issue of acknowledgement of their application, thereby resulting in the easing of position with respect to cash flows.

Further, the subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input tax on goods and services and phasing out of Central Sales Tax (CST) may reduce the cost of locally manufactured goods and services. Resultantly, the competitiveness of Indian goods and services in the international market may increase to give boost to investments and Indian exports.

With a boost in exports and manufacturing activity, more employment would be generated and GDP would increase.

Question 1

Explain with the help of examples how a particular transaction of goods and services is taxed simultaneously under Central GST (CGST) and State GST (SGST)?

Answer 1

The Central GST and the State GST is levied simultaneously on every intra-State supply of goods or services or both made by registered persons except the exempted goods and services as well as goods and services which are outside the purview of GST. Further, both are levied on the same price or transaction value. The same can be better understood with the help of following examples:

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Paper 3 - Taxation

Example I: Suppose that the rate of CGST is 10% and that of SGST is 10%. When a wholesale dealer of steel in Uttar Pradesh supplies steel bars and rods to a construction company which is also located within the same State for, say ₹ 100, the dealer would charge CGST of ₹ 10 and SGST of ₹ 10 in addition to the basic price of the goods. The CGST component will go into a Central Government account while the SGST portion into the account of the concerned State Government (viz. U.P.).

It is important to note that he might not actually pay ₹ 20 (₹ 10 + ₹ 10) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his eligible purchases (inputs, input services and capital goods) assuming that all his purchases are intra-State. However, for paying CGST, he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. CGST credit cannot be used for payment of SGST and vice versa.

Example II: Suppose, again the rate of CGST is 10% and that of SGST is 10%. When an advertising company located in Mumbai supplies advertising services to a company manufacturing soap also located within the State of Maharashtra for, let us say ₹ 100, the ad company would charge CGST of ₹ 10 as well as SGST of ₹ 10 at the basic value of the service. The CGST component will go into a Central Government account while the SGST portion into the account of the Maharashtra Government.

He might not actually pay ₹ 20 (₹ 10 + ₹ 10) in cash as it would be entitled to set-off this liability against the CGST or SGST paid on his eligible purchases (say, of inputs such as stationery, office equipment, services of an artist etc.) assuming that all his purchases are intra-State. However, for paying CGST, he would be allowed to use only the credit of CGST paid on its purchase while for SGST, he can utilise the credit of SGST alone. CGST credit cannot be used for payment of SGST and vice versa.

Question 1

Why was the need to amend the Constitution of India before introducing the GST?

Answer 1

Earlier, the fiscal powers between the Centre and the States were clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre had the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States had the powers to levy tax on the sale of goods. In the case of inter-State sales, the Centre had the power to levy the Central Sales Tax but the tax was collected and retained entirely by the States. As for services, it was the Centre alone that was empowered to levy service tax.

Introduction of the GST necessitated the amendments in the Constitution so as to simultaneously empower the Centre and the States to levy and collect this tax. The Constitution of India was amended by the Constitution (101st Amendment) Act, 2016 for this purpose. Article 246A of the Constitution introduced thereby empowered the Centre and the States to simultaneously levy and collect the GST.

Question 1

GST is a destination-based tax on consumption of goods or services or both. Discuss the validity of the statement.

Answer 1

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The given statement is valid. GST is a destination-based tax on consumption of goods or services or both. GST is known as destination-based tax since the tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

For example, if A in Delhi produces the goods and sells the goods to B in Haryana. In this case, the tax would accrue to the State of Haryana and not to the State of Delhi. On the other hand, under pre-GST regime, origin-based taxation was prevailing in such cases. Under origin-based taxation, the tax used to accrue to the State from where the transaction originated. In the given case, under origin-based taxation, the central sales tax would have been levied by Centre and collected by the State of Delhi and not by the State of Haryana.

Question 1

Discuss the leviability of GST or otherwise on the following:

- (a) **Alcoholic liquor for human consumption**
- (b) **Petroleum crude, diesel, petrol, Aviation Turbine Fuel (ATF) and natural gas**
- (c) **Tobacco**
- (d) **Opium, Indian hemp and other narcotic drugs and narcotics**

Answer 1

- (a) Alcoholic liquor for human consumption: is outside the realm of GST. The manufacture/production of alcoholic liquor continues to be subjected to State excise duty and inter-State/intra-State sale of the same is subject to CST/VAT respectively.
- (b) Petroleum crude, diesel, petrol, ATF and natural gas: As regards petroleum crude, diesel, petrol, ATF and natural gas are concerned, they are not presently leviable to GST. GST will be levied on these products from a date to be notified on the recommendations of the GST Council.
Till such date, central excise duty continues to be levied on manufacture/production of petroleum crude, diesel, petrol, ATF and natural gas and inter-State/intra-State sale of the same is subject to CST/ VAT respectively.
- (c) Tobacco: Tobacco is within the purview of GST, i.e. GST is leviable on tobacco. However, Union Government has also retained the power to levy excise duties on tobacco and tobacco products manufactured in India. Resultantly, tobacco is subject to GST as well as central excise duty.
- (d) Opium, Indian hemp and other narcotic drugs and narcotics: Opium, Indian hemp and other narcotic drugs and narcotics are within the purview of GST, i.e. GST is leviable on them. However, State Governments have also retained the power to levy excise duties on such products manufactured in India. Resultantly, Opium, Indian hemp and other narcotic drugs and narcotics are subject to GST as well as State excise duties.

Question 1

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Paper 3 - Taxation

Under Goods and Services Tax (GST), only value addition is taxed and burden of tax is to be borne by the final consumer. Examine the validity of the statement.

Answer 1

The statement is correct. Goods and Services Tax is a destination-based tax on consumption of goods and services. It is levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. Resultantly, only value addition is taxed and burden of tax is to be borne by the final consumer.

Question 1

Which are the commodities which have been kept outside the purview of GST? Examine the status of taxation of such commodities after introduction of GST.

Answer 1

Article 366(12A) of the Constitution as amended by 101st Constitutional Amendment Act, 2016 defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption. Therefore, alcohol for human consumption is kept out of GST by way of definition of GST in the Constitution. Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out of the purview of GST; GST Council shall decide the date from which they shall be included in GST. The erstwhile taxation system (CST/VAT & central excise) still continues in respect of the said commodities.

Question 1

A dual GST has been implemented in India. Elaborate.

Answer 1

A dual GST has been implemented in India with the Centre and States simultaneously levying it on a common tax base. The GST levied by the Centre on intra-State supply of goods and / or services is called the Central GST (CGST) and that levied by the States/ Union territory is called the State GST (SGST)/ Union GST (UTGST). Similarly, Integrated GST (IGST) is levied and administered by Centre on every inter-State supply of goods and/or services.

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST, therefore, keeps with the Constitutional requirement of fiscal federalism.

Question 1

Discuss Article 269A pertaining to levy and collection of GST on inter-State supply.

Answer 1

Article 269A of the Constitution stipulates that Goods and Services Tax on supplies in the course of inter-State trade or commerce shall be levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

Here, supply of goods, or of services, or both in the course of import into the territory of India shall be deemed to be supply of goods, or of services, or both in the course of inter-State trade or commerce.

The amount so apportioned to a State shall not form part of the Consolidated Fund of India. Where an amount collected as IGST has been used for payment of SGST or vice

Paper 3 - Taxation

versa, such amount shall not form part of the Consolidated Fund of India/State respectively. This is to facilitate transfer of funds between the Centre and the States.

Parliament is empowered to formulate the principles for determining the place of supply, and when a supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

Question 1

Discuss Article 246A which grants the power to make laws with respect to Goods and Services Tax.

Answer 1

Article 246A stipulates that Parliament, and, the Legislature of every State, have power to make laws with respect to goods and services tax imposed by the Union or by such State.

Parliament has exclusive power to make laws with respect to goods and services tax where the supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

However, in respect to petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel, the aforesaid provisions shall apply from the date to be notified by the Government on the recommendations by the GST Council.

Question 1 ILLUSTRATION 1

In case of local supply of goods/ services, the supplier would charge dual GST i.e., CGST and SGST at specified rates on the supply.

(i) Supply of goods/ services by A to B

	Amount (in ₹)
Value charged for supply of goods/ services	10,000
Add: CGST @ 9%	900
Add: SGST @ 9%	900
Total price charged by A from B for local supply of goods/ services	11,800

The CGST & SGST charged on B for supply of goods/services will be remitted by A to the appropriate account of the Central and State Government respectively.

A is the first stage supplier of goods/services and hence, does not have credit of CGST, SGST or IGST.

(ii) Supply of goods/services by B to C – Value addition @ 20%

B will avail credit of CGST and SGST paid by him on the purchase of goods/ services and will utilise such credit for being set off against the CGST and SGST payable on the supply of goods/services made by him to C.

	Amount (in ₹)
Value charged for supply of goods / Service (10,000 X 120%)	12,000

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Add: CGST @ 9%	1080
Add: SGST @ 9%	1080
Total price charged by B from C for local supply of goods/ services	14160

Computation of CGST, SGST payable by B to Government

	Amount (in `)
CGST payable	1080
Less: Credit of CGST	<u>900</u>
CGST payable to Central Government	<u>180</u>
SGST payable	1080
Less: Credit of SGST	<u>900</u>
SGST payable to State Government	<u>180</u>

Note: Rates of CGST and SGST have been assumed to be 9% each for the sake of simplicity.

Statement of revenue earned by Central and State Government

Transaction	Revenue to Central Government (₹)	Revenue to State Government (₹)
Supply of goods/services by A to B	900	900
Supply of goods/services by B to C	180	180
Total	1080	1080

Question 1 ILLUSTRATION 1

In case of inter-State supply of goods/ services, the supplier would charge IGST at specified rates on the supply.

(i) Supply of goods/services by X of State 1 to A of State 1

	Amount (in `)
Value charged for supply of goods/services	10,000
Add: CGST @ 9%	900
Add: SGST @ 9%	<u>900</u>
Total price charged by X from A for intra-State supply of goods/services	<u>11,800</u>

X is the first stage supplier of goods/services and hence, does not have any credit of CGST, SGST or IGST.

(ii) Supply of goods/services by A of State 1 to B of State 2 – Value addition @ 20%

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	Amount (in `)
Value charged for supply of goods / Service (10,000 X 120%)	12,000
Add: IGST @ 18%	<u>2,160</u>
Total price charged by A from B for inter-State supply of goods/services	<u>14,160</u>

Computation of IGST payable to Government

	Amount (in `)
IGST payable	2,160
Less: Credit of CGST	900
Less: Credit of SGST	<u>900</u>
IGST payable to Central Government	<u>360</u>

The IGST charged on B of State 2 for supply of goods/services will be remitted by A of State 1 to the appropriate account of the Central Government. State 1 (Exporting State) will transfer SGST credit of ` 900 utilised in the payment of IGST to the Central Government.

(iii) Supply of goods/services by B of State 2 to C of State 2 – Value addition @ 20%

B will avail credit of IGST paid by him on the purchase of goods/services and will utilise such credit for being set off against the CGST and SGST payable on the local supply of goods/services made by him to C.

	Amount (in `)
Value charged for supply of goods / Service (12,000 X 120%)	14,400
Add: CGST @ 9%	1,296
Add: SGST @ 9%	<u>1,296</u>
Total price charged by B from C for local supply of goods/services	<u>16,992</u>

Computation of CGST, SGST payable to Government

	Amount (in `)
CGST payable	1,296
Less: Credit of IGST	<u>1,296</u>
CGST payable to Central Government	<u>Nil</u>
SGST payable	1,296
Less: Credit of IGST (` 2,160 - ` 1,296)	<u>864</u>
SGST payable to State Government	<u>432</u>

Central Government will transfer IGST credit of ` 864 utilised in the payment of SGST to State 2 (Importing State).

Note: Rates of CGST, SGST and IGST have been assumed to be 9%, 9% and 18% respectively for the sake of simplicity.

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Paper 3 - Taxation

Statement of revenue earned by Central and State Governments

Transaction	Revenue to Central Government(₹)	Revenue to Government of State 1 (₹)	Revenue to Government of State 2 (₹)
Supply of goods/services by X to A	900	900	
Supply of goods/services by A to B	360		
Transfer by State 1 to Centre	900	(900)	
Supply of goods/services by B to C			432
Transfer by Centre to State 2	(864)		864
Total	1,296	Nil	1,296

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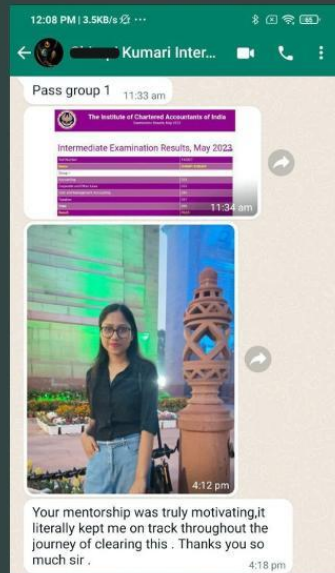
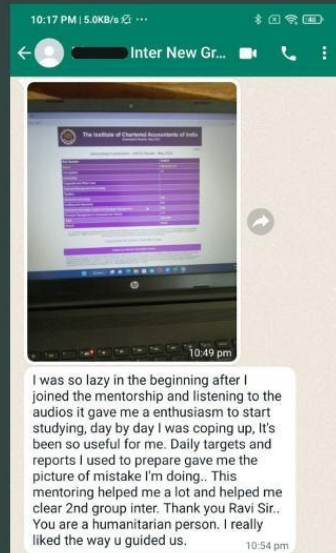
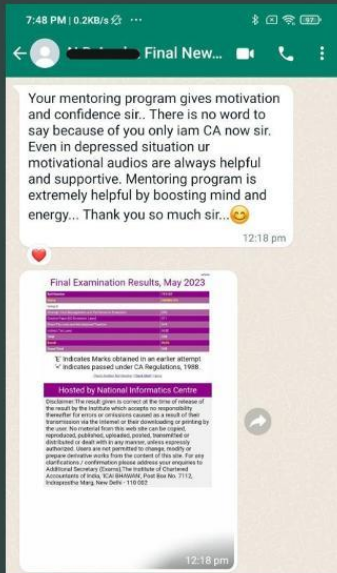
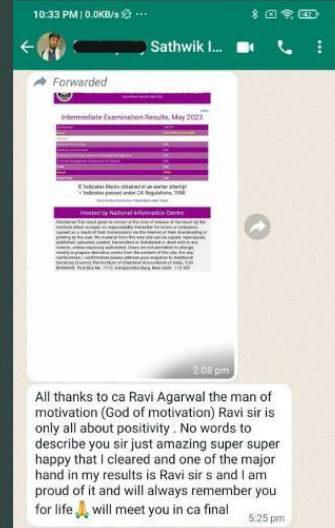
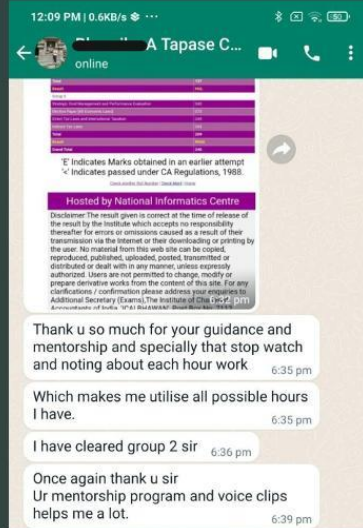
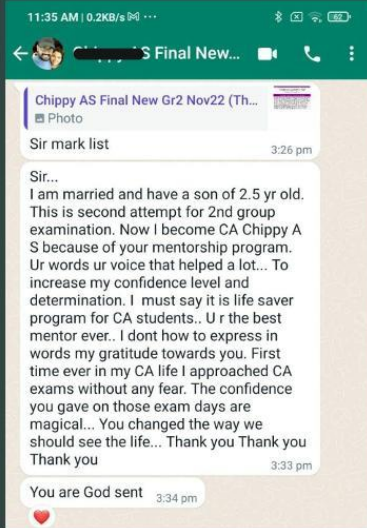
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Paper 3 - Taxation

Chapter 2 Supply under GST

Attempt wise Distribution

Attem pts	May'1 8	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul'2 1	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q11	Q6							Q1	
RTP			Q7	Q3, Q10	Q4,Q8, Q9		Q2	Q5				
Q & A												
MTP	Q1,Q 16		Q6, Q11	Q15	Q17						Q7	Q9
PYP	Q5	Q13			Q2		Q4		Q3		Q18	
RTP	Q12	Q8, Q14					Q10					

Section A

1. Determine which of the following independent transactions even if made without consideration in terms of Schedule I of the CGST Act, 2017, will be deemed as supply?
- (i) AB & Associates transfers stock of goods from its Mumbai branch to Kolkata depot for sale of such goods at the depot.
 - (ii) Mr. Raghveer, a dealer of air-conditioners permanently transfers the motor vehicle free of cost. ITC on said motor vehicle was blocked and therefore, was not availed.
 - (iii) Mrs. Riddhi, an employee of Sun Ltd., received gift from her employer on the occasion of Diwali worth ₹ 21,000.
 - (a) (i)
 - (b) (ii)
 - (c) (iii)
 - (d) Both (i) and (ii) **(MTP 2 Marks March '23)**

Ans: (a)

2. Sahil, a resident of Delhi, is having a residential property in Vasant Vihar, Delhi which has been given on rent to a family for ₹ 50 lakh per annum. Determine whether Sahil is liable to pay GST on such rent.
- (a) Yes, as services by way of renting is taxable supply under GST.
 - (b) No, service by way of renting of residential property is exempt.
 - (c) No, service by way of renting of residential property does not constitute supply.

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(d) Sahil, being individual, is not liable to pay GST.

(RTP May '21)

Ans: (b)

As per amendment renting of residential dwelling to a registered person is taxable under RCM.

3. Which of the following is not covered under Schedule III of CGST Act, 2017?

- (a) Director's monthly salary under employment agreement
- (b) Sitting fees to independent directors for attending AGMs
- (c) Payment to employee for providing broking services to the employer for purchase of commercial property. Such services do not form part of the employment contract entered into by the employer with the employee.
- (d) Both (b) and (c) **(RTP Nov '19)**

Ans: (d)

4. Which of the following activity shall be treated neither as a supply of goods nor a supply of services?

- (i) **Permanent transfer of business assets where input tax credit has been availed on such assets**
 - (ii) **temporary transfer of intellectual property right**
 - (iii) **transportation of deceased**
 - (iv) **services by an employee to the employer in the course of employment**
- (a) (i) & (iii)
 - (b) (ii) & (iv)
 - (c) (i) & (ii)
 - (d) (iii) & (iv) **(RTP May '20)**

Ans: (d)

5. Determine which of the following independent cases will be deemed as supply even if made without consideration in terms of Schedule I of the CGST Act, 2017?

- (i) **AB & Associates transfers stock of goods from its Mumbai branch to Kolkata depot for sale of such goods at the depot.**
 - (ii) **Mr. Raghuveer, a dealer of air-conditioners permanently transfers the motor vehicle free of cost. ITC on said motor vehicle is blocked.**
 - (iii) **Mrs. Riddhi, an employee of Sun Ltd., received gift from her employer on the occasion of Diwali worth ₹ 21,000.**
- (a) (i)
 - (b) (ii)
 - (c) (iii)
 - (d) Both (i) and (ii) **(RTP Nov '21)**

Ans: (a)

6. Which of the following is not a supply of services?

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- (a) Renting of Commercial Office Complex
- (b) Payment of Non-Compete Fee by an ex-employee to his previous employer
- (c) Repairing of Mobile Phone
- (d) Permanent transfer of business assets on which ITC is availed **(MTP 1Marks, Oct'19)**

Ans: (d)

7. M.H. Husain, a famous painter, Delhi, sends his latest art work to Indian Classic gallery, Delhi, for exhibition. However, no consideration has flown from Indian Classic gallery to M. H. Husain when the art work is sent to the gallery for exhibition. M. H. Husain is in dilemma whether GST is payable on said transfer of art work. What would be your advice on the same?

- (a) GST is payable as the same amounts to taxable supply of goods.
- (b) GST is payable as the same amounts to taxable supply of services.
- (c) GST is not payable as the same is an exempt supply.
- (d) GST is not payable as the same does not amount to supply at all. **(RTP May '19)**

Ans: (d)

8. Which is not considered as supply under GST Law?

- i. Date of completion certificate - 31/01/20XX
- ii. Date of agreement with buyer - 01/02/20XX
- iii. Consideration received - 05/02/20XX **(RTP May '20)**

- (a) Stock transferred from one establishment in Delhi to another establishment in Gurgaon, Haryana registered under same PAN.
- (b) CA Ram supplies accounting services to CA Radha in lieu of taxation services received from CA Radha.
- (c) A Health club supplies lunch to its members at its annual meeting against a nominal charge.
- (d) Mr. A sells a flat to Mr. B

Ans: (d)

9. Mr. Arun, a registered supplier, is engaged in selling sweets. The sweets are sold in boxes and the cost of each sweet box is ₹ 500/-. In order to increase his turnover, he purchased certain juice cans @ ₹ 20/- each and added juice can with every sweet box as a gift. A sweet box along with free juice can is sold at ₹500/- each.

Which of the statements is correct?

- (a) He is liable to pay tax on ₹520/- and eligible to claim input tax credit on purchase of juice cans
- (b) He is liable to pay tax on ₹500/- and not eligible to claim input tax credit on purchase of juice cans
- (c) He is liable to pay tax on ₹500/- and also eligible to claim input tax credit on purchase of juice cans

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Paper 3 - Taxation

(d) Either (a) or (b) (RTP May '20)

Ans: (c)

10. ABC Ltd. is a registered pharmaceutical company. The company invented one drug for instant cure of cancer. They supplied free samples of this medicine to various doctors. What will be the tax treatment of these free samples under GST?

- (a) ABC Ltd. is liable to pay tax on supply of free samples and eligible to claim input tax credit.
- (b) ABC Ltd. is not liable to pay tax on supply of free samples but eligible to claim input tax credit.
- (c) ABC Ltd. is neither liable to pay tax on supply of free samples nor eligible to claim input tax credit.
- (d) ABC Ltd. is liable to pay tax on supply of free samples but not eligible to claim input tax credit. (RTP Nov '19)

Ans: (c)

11. Which of the following services received without consideration amount to supply?

- (1) **Import of services by a person in India from his son well-settled in USA**
 - (2) **Import of services by a person in India from his brother well-settled in Germany**
 - (3) **Import of services by a person in India from his brother (wholly dependent on such person in India) in France**
 - (4) **Import of services by a person in India from his daughter (wholly dependent on such person in India) in Russia**
- (a) 1), 3) and 4)
 - (b) 2), 3) and 4)
 - (c) 2) and 3)
 - (d) 1) and 2) (MTP 2 Marks, March'19)

Ans : (a)

Question & Answer

Question 1

Explain the term 'aggregate turnover'. (MTP 4 Marks, March'18)

Answer 1

Aggregate turnover includes the aggregate value of:

- (i) all taxable supplies,
- (ii) all exempt supplies,
- (iii) exports of goods and/or services and
- (iv) all inter-State supplies of persons having the same PAN.

The above is computed on all India basis. Further, the aggregate turnover excludes central tax, State tax, Union territory tax, integrated tax and cess. Moreover, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of 'aggregate turnover' [Section 2(6) of CGST Act].

Question 2

With reference to provisions of the CGST Act, 2017 discuss in brief, when "Importation of services" is to be considered as supply and when it is not to be considered as supply. (PYP 5 Marks, Nov'20)

Answer 2

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Importation of services for a consideration whether or not in the course or furtherance of business is to be considered as supply.

Importation of services by a person without consideration is deemed as supply provided the following two conditions are satisfied: -

- (a) such import is from related person or from his establishments located outside India, and
- (b) such import is in the course or furtherance of business.

In case any or both of the above two conditions is/are not satisfied, the import of services without consideration shall not be deemed as supply.

Question 3

Examine whether the following activities would amount to "supply" under GST law?

- (i) **Glory Ltd. is engaged in manufacturing and selling of cosmetic products. Seva Trust, a charitable organization, approached Glory Ltd. to provide financial assistance for its charitable activities. Glory Ltd. donated a sum of ₹ 2 lakh to Seva Trust with a condition that Seva Trust will place a hoarding at the entrance of the trust premises displaying picture of products sold by Glory Ltd.**
- (ii) **Mr. Swamy of Chennai is working as a manager with ABC Bank. He consulted M/s. Jacobs and Company of London and took its advice for buying a residential house in Mumbai and paid them consultancy fee of 200 UK Pound for this import of service. (PYP 4 Marks May'22)**

Answer 3

- (i) An activity qualifies as supply under GST only if it is for a consideration and is in course/furtherance of business. Donations received by the charitable organizations are treated as consideration only when there's an obligation on part of the recipient of the donation to do anything.

Since in the given case, the display of products sold by the donor – Glory Ltd. - in charitable organization's premises aims at advertising/promotion of its business, it is supply for consideration in course/furtherance of business and thus, qualifies as supply under GST law.

- (ii) Supply includes importation of services, for a consideration whether or not in the course/furtherance of business. Thus, in the given case, the import of services by Mr. Swamy amounts to supply although it is not in course/furtherance of business

Question 4

Explain the composite supply and mixed supply. If a trader launches a package sale for marriage containing double bed, refrigerator, washing machine, wooden wardrobe at a single rate. He is issuing invoice showing value of each goods separately. Whether this is case of mixed supply or composite supply. Explain. (PYP 4 Marks, July'21)

Answer 4

Composite supply comprises of two or more taxable supplies of goods or services or both, or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply.

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Mixed supply means two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person for a single price

where such supply does not constitute a composite supply.

Items such as double bed, refrigerator, washing machine and wooden wardrobe are not naturally bundled and also the invoice for the supply shows separate values for each item i.e., the package is not supplied for a single price.

Therefore, supply of such items as a package will neither constitute a composite supply nor a mixed supply. Thus, the various items of the package will be treated as being supplied individually.

Note: The question specifies that the various items are supplied at a 'single rate'. The "single rate" expression is construed as single rate of tax in the above answer. Further, the "single rate" may also be construed as single price as given in the below mentioned answer.

Items such as double bed, refrigerator, washing machine and wooden wardrobe are not naturally bundled. Therefore, supply of such items as a package will not constitute composite supply. Further, a single price has been charged for the package.

Consequently, supply of such items as a package will be treated as mixed supply.

Question 5

Explain the meaning of the term "recipient of supply of goods and/or services" under the CGST Act, 2017. (PYP 5 Marks May '18)

Answer 5

Recipient of supply of goods or services or both, means —

- (i) where a consideration is payable for the supply of goods or services or both, the person who is liable to pay that consideration;
- (ii) where no consideration is payable for the supply of goods, the person to whom the goods are delivered or made available, or to whom possession or use of the goods is given or made available; and
- (iii) where no consideration is payable for the supply of a service, the person to whom the service is rendered, and
 - (i) any reference to a person to whom a supply is made shall be construed as a reference to the recipient of the supply, and
 - (ii) shall include an agent acting as such on behalf of the recipient in relation to the goods or services or both supplied.

Question 6

Whether transfer of title and/or possession is necessary for a transaction to constitute supply of goods? (MTP 5 Marks, March'19)

Answer 6

Title as well as possession both have to be transferred for a transaction to be considered as a supply of goods. In case title is not transferred, the transaction would be treated as supply of service in terms of Schedule II(1)(b) of the CGST Act. In some cases, possession may be transferred immediately but title may be transferred at a future date like in case of sale on approval basis or hire purchase arrangement. Such transactions will also be termed as supply of goods.

Question 7

The goods supplied on hire purchase basis will be treated as supply of services. Examine the validity of the statement. (MTP 2 Marks March '23)

Answer 7

The statement is not correct. Supply of goods on hire purchase shall be treated as supply of goods as there is transfer of title, albeit at a future date.

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Question 8

List any 5 (Five) activities/transactions specified under Schedule III of the CGST Act, 2017 which shall be neither treated as supply of goods nor as supply of services. Detailed explanations is not required. (RTP Nov '18)

Answer 8

Activities or transactions which shall be treated neither as a supply of goods nor a supply of services are as under:-

- (1) Services by an employee to the employer in the course of or in relation to his employment.
- (2) Services by any court or Tribunal established under any law for the time being in force.
- (3) Functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities.
- (4) Duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity.
- (5) 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. (i.e. in case, where entire consideration for sale of building received after issuance of completion certificate or after its first occupation, whichever is earlier).
- (8) Actionable claims, other than lottery, betting and gambling.
- (9) Supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India (OR) Merchant Trading / High-sea Sales
- (10) Supply of warehoused goods to any person before clearance for home consumption.
- (11) Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption.

Question 9

Gagan Engineering Pvt. Ltd., registered in Haryana, is engaged in providing maintenance and repair services for heavy steel machinery. For carrying out the repair work, Gagan Engineering Pvt. Ltd. sends its container trucks equipped with items like repair equipment's, consumables, tools, parts etc. from Haryana workshop to its own repairing centers (registered under GST law) located in other States across India where the clients' machinery are being brought and are being repaired. Discuss the livability of GST on the inter-State movement of trucks from the workshop of Gagan Engineering Pvt. Ltd. in Haryana to its own repairing centers located in other States across India. (MTP 4 Marks Oct '23)

Answer 9

As per section 25(4)27, a person who has obtained more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as 'distinct persons'. Schedule I to the CGST Act specifies situations where activities are to be treated as supply even if made without

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consideration. Supply of goods and/or services between 'distinct persons' as specified in section 25, when made in the course or furtherance of business is one such activity included in Schedule I under para 2.

However, as per CBIC circular, the inter-State movement of various modes of conveyance including, inter alia, trucks, carrying goods or passengers or both or for repairs and maintenance, between 'distinct persons' as specified in section 25(4), not involving further supply of such conveyance, may be treated 'neither as a supply of goods nor supply of service' and therefore, will not be leviable to IGST. Applicable CGST/SGST/IGST, however, shall be leviable on repairs and maintenance done for such conveyance [Circular No. 1/1/2017 IGST dated 07.07.2017]. Thus, in the given case, inter-State movement of trucks from the workshop of Gagan Engineering Pvt. Ltd. located in Haryana to its repair centers located in other States is 'neither a supply of goods nor supply of service'.²⁷ Provisions of section 25(4) have been discussed in detail in Chapter 7 – Registration

Question 10

Mr. Priyam, director of Sun Moon Company Private Limited, provided service to the company for remuneration of ₹ 1,25,000. Briefly answer whether GST is applicable in the below mentioned independent cases? If yes, who is liable to pay GST?

- (i) **Mr. Priyam is an independent director of Sun Moon Company Private Limited and not an employee of the company.**
- (ii) **Mr. Priyam is an executive director, i.e. an employee of Sun Moon Company Private Limited. Out of total remuneration amounting to ₹ 1,25,000, ₹ 60,000 has been declared as salaries in the books of Sun Moon Company Private Limited and subjected to TDS under section 192 of the Income-Tax Act (IT Act). However, ₹ 65,000 has been declared separately other than salaries in the Sun Moon Company Private Limited's accounts and subjected to TDS under section 194J of the IT Act as professional services.**

(RTP May '21)

Answer 10

- (I) As per Para I of Schedule III of the CGST Act, services by an employee to the employer in the course of or in relation to his employment are non-supplies, i.e. they are neither supply of goods nor supply of services. Services provided by the independent directors who are not employees of the said company to such company, in lieu of remuneration as the consideration for the said services, are clearly outside the scope of Schedule III of the CGST Act and are therefore taxable. Further, such remuneration paid to the directors is taxable in hands of the company, on reverse charge basis. Thus, GST is applicable in this case and Sun Moon Company Private Limited is liable to pay GST.
- (II) The part of director's remuneration which is declared as salaries in the books of a company and subjected to TDS under section 192 of the Income-tax Act (IT Act), is not taxable being consideration for services by an employee to the employer in the course of or in relation to his employment in terms of Schedule III.

Further, the part of employee director's remuneration which is declared separately other than salaries in the company's accounts and subjected to TDS under section 194J of the IT Act as fees for professional or technical services are treated as consideration for providing services which are outside

the scope of Schedule III and is therefore, taxable. The recipient of the said services i.e. the company, is liable to discharge the applicable GST on it on reverse charge basis.

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In lieu of the above provisions, ₹ 60,000 declared as salaries in the books of Sun Moon Company Private Limited and subjected to TDS under section 192 of the Income-Tax Act (IT Act), is not taxable being consideration for services by an employee to the employer in the course of or in relation to his employment in terms of Schedule III.

Further, ₹ 65,000 declared separately other than salaries in the Sun Moon Company Private Limited's accounts and subjected to TDS under section 194J of the IT Act as professional services is treated as consideration for providing services which is outside the scope of Schedule III and is therefore, taxable. The recipient of the said services i.e. the Sun Moon Company Private Limited, is liable to discharge the applicable GST on it on reverse charge basis.

Question 11

State whether the following supplies would be treated as supply of goods or supply of services as per Schedule II of CGST Act:

- (i) **Renting of immovable property**
- (ii) **Transfer of right in goods without transfer of title in goods.**
- (iii) **Works contract services**
- (iv) **Temporary transfer of permitting use or enjoyment of any intellectual property right**
- (v) **Transfer of title in goods under an agreement which stipulates that property shall pass at a future date. (MTP 5 Marks, April'19)**

Answer 11

Renting of immovable property would be treated as supply of services in terms of Schedule- II of CGST Act, 2017.

- (i) As per Schedule-II of CGST Act, 2017, transfer of right in goods without transfer of title in goods would be treated as supply of services.
- (ii) As per Schedule-II of CGST Act, 2017, works contract services would be treated as supply of services.
- (iii) As per Schedule-II of CGST Act, 2017, temporary transfer of permitting use or enjoyment of any intellectual property right would be treated as supply of services.
- (iv) As per Schedule-II of CGST Act, 2017, transfer of title in goods under an agreement which stipulates that property shall pass at a future date would be treated as supply of goods.

Question 12

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

Further, a Janakpuri resident, Aakash, approached Sahab Sales. He sold an air-conditioner to Sahab Sales for ₹ 5,000. Aakash had bought the said air-conditioner six months before, for his residence. Does sale of the air conditioner by Aakash to Sahab Sales amount to supply under section 7 of the CGST Act, 2017?(RTP May '18)

Answer 12

Section 7 of the CGST Act, 2017 stipulates that in order to qualify as supply:

- (a) Supply should be of goods and/or services.
- (b) Supply should be made for a consideration.
- (c) Supply should be made in the course or furtherance of business.

Further, Schedule I of the CGST Act, 2017 illustrates the activities to be treated as supply even if made without consideration. One such activity is permanent transfer or

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disposal of business assets where input tax credit has been availed on such assets , i.e. said activity is to be treated as supply even if made without consideration. In view of said provisions, permanent transfer of air conditioners by Sahab Sales from its stock for personal use at its residence, though without consideration, would amount to supply.

However, sale of air-conditioner by Aakash to Sahab Sales will not qualify as supply under section 7 of the CGST Act, 2017 as although it is made for a consideration, but its not in the course or furtherance of business.

Question 13

Explain the meaning of supply as per provisions of Section 7(1) of Central Goods and Service Tax Act, 2017. (PYP 5 Marks Nov'18)

Answer 13

As per section 7(1) of CGST Act, 2017, the term supply includes –

- (a) all forms of supply of goods or services or both such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for a consideration by a person, in the course or furtherance of business;
- (b) **As Per amendment: the activities or transactions, by a person, other than an individual, to its members or constituents or vice-versa, for cash, deferred payment or other valuable consideration.**
- (c) import of services for a consideration whether or not in the course or furtherance of business;
- (d) the activities specified in Schedule I, made or agreed to be made without a consideration; and
- (e) the activities to be treated as supply of goods or supply of services as referred to in Schedule II.

Question 14

Examine whether the activity of import of service in the following independent cases would amount to supply under section 7:

- (i) **Miss Shriniti Kaushik received interior decoration services for her residence located at Bandra, Mumbai from Mr. Racheal of Sydney (Australia). The amount paid for the said service is 5,000 Australian dollar.**
- (ii) **Miss Shriniti Kaushik received interior decoration services for her residence located at Bandra, Mumbai from her brother, Mr. Varun residing in Sydney (Australia) [wholly dependent on Miss Shriniti]. Further, Miss Shriniti did not pay any consideration for the said service.**
- (iii) **Will your answer change if in the above case, if Miss Shriniti has taken interior decoration services with regard to her business premises and not her residence? (RTP Nov'18)**

Answer 14

- i. Supply, under section 7, inter alia,
 - includes import of services for a consideration
 - even if it is not in the course or furtherance of business.

Thus, although the import of service for consideration by Miss. Shriniti Kaushik is not in course or furtherance of business [as the interior decoration services have been availed in respect of residence], it would amount to supply.

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- ii. Schedule I, inter alia, stipulates that import of services by a taxable person from a **related person** located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business. Explanation to section 15, inter alia, provides that persons shall be deemed to be “**related persons**” if they are **members of the same family**. Further, as per section 2(49), family means, —
- (i) the spouse and children of the person, and
 - (ii) the parents, grand-parents, brothers and sisters of the person **Uif they are wholly or mainly dependent on the said person**U.

In the given case, Miss Shriniti Kaushik has received interior decoration services from her brother. In view of section 2(49)(ii) above, Miss Shriniti and her brother shall be considered to be related as Miss Shriniti's brother is wholly dependent on her. However, Miss Shriniti has taken interior decoration services for her residence and not in course or furtherance of business. Consequently, services provided by Miss Shriniti's brother to her would not be treated as supply under section 7 read with Schedule I.

- iii. In the above case, if Miss Shriniti has taken interior decoration services with regard to her business premises, services provided by Miss Shriniti's brother to her would be treated as supply under section 7 read with Schedule I.

Question 15

Raman is an architect in Chennai. His brother who is settled in London is a well-known lawyer. Raman has taken legal advice from him free of cost with regard to his family dispute. Examine whether the said activity would amount to supply under section 7 read with Schedule I of the CGST Act Would your Answer be different if in the above case, Raman has taken advice in respect of his business unit in Chennai? (MTP 6 Marks, Oct'19)

Answer 15

Schedule I of CGST Act, inter alia, stipulates that import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business. Explanation to section 15, inter alia, provides that persons shall be deemed to be “related persons” if they are members of the same family. Further, as per section 2(49) of the CGST Act, 2017, family means, —

- (i) the spouse and children of the person, and
- (ii) the parents, grand-parents, brothers and sisters of the person if they are wholly or mainly dependent on the said person.

In the given case, Raman has received free of cost legal services from his brother. However, in view of section 2(49) (ii) above, Raman and his brother cannot be considered to be related as Raman's brother is a well-known lawyer and is not wholly/mainly dependent on Raman. Further, Raman has taken legal advice from him in personal matter and not in course or furtherance of business. Consequently, services provided by Raman's brother to him would not be treated as supply under section 7 read with Schedule I of the CGST Act.

In the above case, if Raman has taken advice with regard to his business unit, services provided by Raman's brother to him would still not be treated as supply under section 7 of the CGST Act read with Schedule I as although the same are provided in course or furtherance of business, such services have not been received from a related person.

Question 16

Discuss the term ‘composite supply’ and its taxability under GST law. (MTP 5

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Marks, March'18)

Answer 16

Composite supply means a supply made by a taxable person to a recipient and:

- comprises 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].

A composite supply comprising of two or more supplies, one of which is a principal supply, shall be treated as a supply of such principal supply [Section 8 of the CGST Act, 2017].

Question 17

Explain the meaning of the term "recipient of supply of goods and/or services" under the CGST Act, 2017. (MTP 5 Marks, Oct'20 & Oct'18)

Answer 17

Recipient of supply of goods or services or both, means —

- (iv) where a consideration is payable for the supply of goods or services or both, the person who is liable to pay that consideration;
- (v) where no consideration is payable for the supply of goods, the person to whom the goods are delivered or made available, or to whom possession or use of the goods is given or made available; and
- (vi) where no consideration is payable for the supply of a service, the person to whom the service is rendered, and
 - (iii) any reference to a person to whom a supply is made shall be construed as a reference to the recipient of the supply, and
 - (iv) shall include an agent acting as such on behalf of the recipient in relation to the goods or services or both supplied.

Question 18

List any 5 (Five) activities/transactions specified under Schedule III of the CGST Act, 2017 which shall be neither treated as supply of goods nor as supply of services. Detailed explanations is not required. (PYP 5 Marks May '23)

Answer 18

Activities or transactions which shall be treated neither as a supply of goods nor a supply of services are as under:-

- (12) Services by an employee to the employer in the course of or in relation to his employment.
- (13) Services by any court or Tribunal established under any law for the time being in force.
- (14) Functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities.
- (15) Duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity.
- (16) 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.

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- (17) Services of funeral, burial, crematorium or mortuary including transportation of the deceased.
- (18) Sale of land and, subject to paragraph 5(b) of Schedule II, sale of building. (i.e. in case, where entire consideration for sale of building received after issuance of completion certificate or after its first occupation, whichever is earlier).
- (19) Actionable claims, other than lottery, betting and gambling.
- (20) Supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India (OR) Merchant Trading / High-sea Sales
- (21) Supply of warehoused goods to any person before clearance for home consumption.
- (22) Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption.

Section B

Question 1

Meghraj & Co. wishes to commence the business of supplying ready-made garments within Punjab and in the neighboring States of Delhi and Haryana. Kindly state as to what is the taxable event under GST and livability of CGST, SGST/UTGST and IGST on the same?

Answer 1

Taxable event under GST is supply of goods or services or both. CGST and SGST/UTGST will be levied on intra-State supplies. IGST will be levied on inter-State supplies.

Question 2

Damodar Private Ltd., registered in Delhi, has transferred some goods to its branch, registered in West Bengal, so that the goods can be sold from the branch. The goods have been transferred without any consideration. The company believes that the transaction undertaken by it does not qualify as supply as no consideration is involved. Ascertain whether the transfer of goods by Damodar Private Ltd. to its branch office qualifies as supply.

Answer 2

As per Schedule I, supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business, is deemed as supply even if made without consideration. In the given case, since the Damodar Private Ltd. and its branch located in another State are distinct persons, supply of goods between them qualifies as supply.

Question 3

Prithvi Associates is engaged in supply of taxable goods. It enquires from its tax advisor as to whether any activity can be treated as supply even if made without consideration in accordance with the provisions. You are required to enumerate such activities, if any.

Answer 3

Section 7 stipulates that the supply should be for a consideration and should be in the course or furtherance of business. However, Schedule I enumerates the cases where an

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activity is treated as supply, even if the same is without consideration. These are as follows:

- (i) Permanent transfer or disposal of business assets where input tax credit has been availed on such assets.
- (ii) Supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business. However, gifts not exceeding fifty thousand rupees in value in a financial year by an employer to an employee shall not be treated as supply of goods or services or both.
- (iii) Supply of goods —
 - (a) by a principal to his agent where the agent undertakes to supply such goods on behalf of the principal; or
 - (b) by an agent to his principal where the agent undertakes to receive such goods on behalf of the principal.
- (iv) Import of services by a person from a related person or from any of his other establishments outside India, in the course or furtherance of business.

Question 4

Composite supply is treated as supply of that particular goods or services which attracts the highest rate of tax. Examine the validity of the statement.

Answer 4

The statement is not correct. Composite supply is treated as supply of the principal supply. It is the mixed supply that is treated as supply of that particular goods or services which attracts the highest rate of tax.

Question 5

Transfer of title and/or possession is necessary for a transaction to constitute supply of goods. Examine.

Answer 5

Title as well as possession both have to be transferred for a transaction to be considered as a supply of goods. In case title is not transferred, the transaction would be treated as supply of service in terms of Schedule II(1)(b). In some cases, possession may be transferred immediately, but title may be transferred at a future date like in case of sale on approval basis or hire purchase arrangement. Such transactions will also be termed as supply of goods.

Question 6

Examine whether the following activities would amount to supply under section 7 read with Schedule-I:

- (a) **Sulekha Manufacturers have a factory in Delhi and a depot in Mumbai. Both these establishments are registered in respective States. Finished goods are sent from factory in Delhi to the Mumbai depot without consideration so that the same can be sold.**
- (b) **Raman is an architect in Chennai. His brother who is settled in London is a well-known lawyer. Raman has taken legal advice from him free of cost with regard to his family dispute.**
- (c) **Would your answer be different if in the above case, Raman has taken advice in respect of his business unit in Chennai?**

Answer 6

- a) Schedule I, inter alia, stipulates that supply of goods or services or both between related persons or between distinct persons as specified in section 25, is supply even without consideration provided it is made in the course or furtherance of business.

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Further, a person who has obtained more than one registration, whether in one State/Union territory or more than one State/Union territory shall, in respect of each such registration, be treated as distinct persons [Section 25(4)]. In view of the same, factory and depot of Sulekha Manufacturers are distinct persons. Therefore, supply of goods from Delhi factory of Sulekha Manufacturers to Mumbai Depot without consideration, but in course/furtherance of business, is supply under section 7 read with Schedule I.

- b) Schedule I, inter alia, stipulates that import of services by a taxable person from a **related person** located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business. Explanation to section 15, inter alia, provides that persons shall be deemed to be **“related persons”** if they are **members of the same family**. Further, as per section 2(49), family means, —
- (i) the spouse and children of the person, and
 - (ii) the parents, grand-parents, brothers and sisters of the person **if they are wholly or mainly dependent on the said person.**

In the given case, Raman has received free of cost legal services from his brother. However, in view of section 2(49)(ii) above, Raman and his brother cannot be considered to be related as Raman's brother is a well-known lawyer and is not wholly/mainly dependent on Raman. Further, Raman has taken legal advice from him in personal matter and not in course or furtherance of business. Consequently, services provided by Raman's brother to him would not be treated as supply under section 7 read with Schedule I.

- c) In the above case, if Raman has taken advice with regard to his business unit, services provided by Raman's brother to him would still not be treated as supply under section 7 read with Schedule I as although the same are provided in course or furtherance of business, such services have not been received from a related person.

Question 7

State whether the following supplies would be treated as supply of goods or supply of services as per Schedule II:

- (a) **Renting of immovable property.**
- (b) **Goods forming part of business assets are transferred or disposed of by/under directions of person carrying on the business.**
- (c) **Transfer of right in goods without transfer of title in goods.**
- (d) **Transfer of title in goods under an agreement which stipulates that property shall pass at a future date upon payment of full consideration as agreed.**

Answer 7

- a) Supply of services
- b) Supply of goods
- c) Supply of services
- d) Supply of goods

Question 8

Determine whether the following supplies would be treated as supply of goods or supply of services as per Schedule II:

- (a) **Temporary transfer or permitting use or enjoyment of any intellectual property right.**

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(b) **Any treatment or process which is applied to another person's goods.**

(c) **Transfer of title in goods.**

Answer 8

- a) Supply of services
- b) Supply of services
- c) Supply of goods

Question 9

The goods supplied on hire purchase basis will be treated as supply of services. Examine the validity of the statement.

Answer 9

The statement is not correct. Supply of goods on hire purchase shall be treated as supply of goods as there is transfer of title, albeit at a future date.

Question 10

Examine whether the activity of import of service in the following independent cases would amount to supply under section 7:

- (i) **Miss Shriniti Kaushik received interior decoration services for her residence located at Bandra, Mumbai from Mr. Racheal of Sydney (Australia). The amount paid for the said service is 5,000 Australian dollar.**
- (ii) **Miss Shriniti Kaushik received interior decoration services for her residence located at Bandra, Mumbai from her brother, Mr. Varun residing in Sydney (Australia) [wholly dependent on Miss Shriniti]. Further, Miss Shriniti did not pay any consideration for the said service.**
- (iii) **Will your answer change if in the above case, if Miss Shriniti has taken interior decoration services with regard to her business premises and not her residence?**

Answer 10

- i. Supply, under section 7, inter alia,
 - includes import of services for a consideration
 - even if it is not in the course or furtherance of business.

Thus, although the import of service for consideration by Miss. Shriniti Kaushik is not in course or furtherance of business [as the interior decoration services have been availed in respect of residence], it would amount to supply.

- ii. Schedule I, inter alia, stipulates that import of services by a taxable person from a **related person** located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business. Explanation to section 15, inter alia, provides that persons shall be deemed to be "**related persons**" if they are **members of the same family**. Further, as per section 2(49), family means, —
 - (i) the spouse and children of the person, and
 - (ii) the parents, grand-parents, brothers and sisters of the person **Uif they are wholly or mainly dependent on the said person**U.

In the given case, Miss Shriniti Kaushik has received interior decoration services from her brother. In view of section 2(49)(ii) above, Miss Shriniti and

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Paper 3 - Taxation

her brother shall be considered to be related as Miss Shriniti's brother is wholly dependent on her. However, Miss Shrinti has taken interior decoration services for her residence and not in course or furtherance of business. Consequently, services provided by Miss Shrinti's brother to her would not be treated as supply under section 7 read with Schedule I.

- iii. In the above case, if Miss Shriniti has taken interior decoration services with regard to her business premises, services provided by Miss Shriniti's brother to her would be treated as supply under section 7 read with Schedule I.

Question 12

Dumdum Electronics has sold the following electronic items to Akbar Retail Store.

- (i) Refrigerator (500 litres) taxable @ 18%
- (ii) Stabilizer for refrigerator taxable @ 12%
- (iii) LED television (42 inches) taxable @ 12%
- (iv) Split air conditioner (2 Tons) taxable @ 28%
- (v) Stabilizer for air conditioner taxable @12%

Dumdum Electronics has issued a single invoice, indicating price of each of the above items separately in the same. Akbar Retail Store has given a single cheque of ` 1,00,000/- for all the items as a composite discounted price. State the type of supply and the tax rate applicable in this case.

Answer 12

In the given case, the items supplied by Dumdum Electronics are not naturally bundled in the ordinary course of business. Therefore, such supply is not a composite supply. Further, although Akbar Retail Store has paid a composite discounted price for these goods, Dumdum Electronics has not charged a single price for the said supply. Therefore, said supply is also not a mixed supply. Supply of these goods is, therefore, supply of individual items which are taxable at the respective rates applicable to them.

Question 13

Manikaran, a registered supplier of Delhi, has supplied 20,000 packages at ` 30 each to Mukhija Gift Shop in Punjab. Each package consists of 2 chocolates, 2 fruit juice bottles and a packet of toy balloons. Determine the rate(s) of GST applicable in the given case assuming the rates of GST to be as under:

Goods/services supplied	GST rate
Chocolates	18%
Fruit juice bottles	12%
Toy balloons	5%

Answer 13

As per section 2(74), mixed supply means two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person for a single price where such supply does not constitute a composite supply. Supply of a package containing chocolates, fruit juice bottles and a packet of toy balloons is a mixed supply as each of these items can be supplied separately and is not dependent on any other. Further, as per section 8(b), the mixed supply is treated as a supply of that particular supply which attracts the highest rate of tax. Thus, in the given case, supply of packages is treated as supply of chocolates [since it attracts the highest rate of tax] and the rate of GST applicable on the package of ` 6,00,000 (20,000 × ` 30) is 18%

Question 14

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Paper 3 - Taxation

Gagan Engineering Pvt. Ltd., registered in Haryana, is engaged in providing maintenance and repair services for heavy steel machinery. For carrying out the repair work, Gagan Engineering Pvt. Ltd. sends its container trucks equipped with items like repair equipment's, consumables, tools, parts etc. from Haryana workshop to its own repairing centers (registered under GST law) located in other States across India where the clients' machinery are being brought and are being repaired. Discuss the livability of GST on the inter-State movement of trucks from the workshop of Gagan Engineering Pvt. Ltd. in Haryana to its own repairing centers located in other States across India.

Answer 14

As per section 25(4)27, a person who has obtained more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as 'distinct persons'. Schedule I to the CGST Act specifies situations where activities are to be treated as supply even if made without consideration. Supply of goods and/or services between 'distinct persons' as specified in section 25, when made in the course or furtherance of business is one such activity included in Schedule I under para 2.

However, as per CBIC circular, the inter-State movement of various modes of conveyance including, inter alia, trucks, carrying goods or passengers or both or for repairs and maintenance, between 'distinct persons' as specified in section 25(4), not involving further supply of such conveyance, may be treated 'neither as a supply of goods nor supply of service' and therefore, will not be leviable to IGST. Applicable CGST/SGST/IGST, however, shall be leviable on repairs and maintenance done for such conveyance [Circular No. 1/1/2017 IGST dated 07.07.2017]. Thus, in the given case, inter-State movement of trucks from the workshop of Gagan Engineering Pvt. Ltd. located in Haryana to its repair centers located in other States is 'neither a supply of goods nor supply of service'.²⁷ Provisions of section 25(4) have been discussed in detail in Chapter 7 – Registration

Question 16

Sarvanna & Sons wishes to start supplying alcoholic liquor in the State of Tamil Nadu. Therefore, it applies for license to the Tamil Nadu Government for selling liquor for which the State Government has charged specified fee from it. Examine whether the grant of alcoholic liquor license by the Tamil Nadu Government to Sarvanna & Sons qualifies as supply.

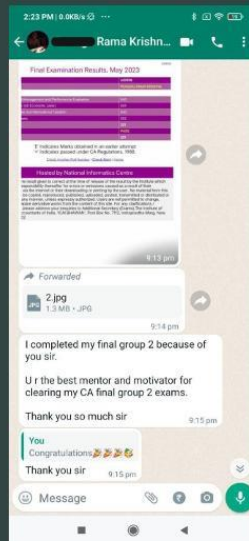
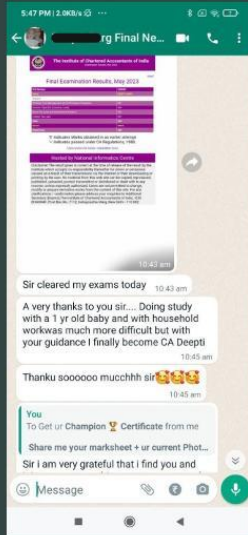
Answer 16

Services by way of grant of alcoholic liquor license by the State Governments have been notified to be treated neither as a supply of goods nor as a supply of service. Such license is granted against consideration in the form of license fee or application fee or by whatever name it is called. This special dispensation is applicable only to supply of service by way of grant of liquor licenses by the State Governments as an agreement between the Centre and States and is not applicable/has no precedence value in relation to grant of other licenses and privileges for a fee in other situations, where GST is payable.

Thus, in the given case, the grant of alcoholic liquor license by the Tamil Nadu Government to Sarvanna & Sons is neither a supply of goods nor a supply of service.

Paper 3 - Taxation

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Paper 3 - Taxation

Chapter 3 Charge of GST

Attempt wise Distribution

Attempts	May'18	Nov'18	May'19	Nov'19	Nov'20	Jan'21	Jul'21	Dec'21	May'22	Nov'22	May'23	Nov'23
MCQ												
MTP			Q3,Q9 ,Q11	Q4,Q5 ,Q7,Q10				Q2				
RTP					Q1,Q6, Q8,Q12							
Q & A												
MTP		Q4	Q7, Q24					Q11, Q15		Q13, Q18	Q5, Q25	Q23
PYP	Q17, Q26	Q27	Q21	Q2,Q9	Q16	Q22	Q19			Q3, Q20	Q6	
RTP		Q12		Q1,Q14	Q10		Q8					

Section A

1. **XX, registered in Delhi, purchased books from PC Traders, registered in Uttar Pradesh. Books are exempt from GST. XX arranged the transport of these books from a goods transport agency (GTA) which charged a freight of ₹ 9,000 for the same. GST is payable @ 5% on such GTA services. Which of the following statement is correct in the given context:**
- GST of ₹ 450 is payable by XX on reverse charge basis.
 - Supply of goods and supply of GTA service is a composite supply wherein supply of goods is the principal supply and since principal supply is an exempt supply, no tax is payable on freight.
 - Since exempt goods are being transported, service provided by GTA for transporting the same is also exempt.
 - GST of ₹ 450 is payable by the GTA. **(RTP Nov '20)**

Ans: (a)

2. **Rama Ltd. has provided following information for the month of September:**
- | | |
|--|-------------|
| Intra-State outward supply | ₹ 8,00,000 |
| Inter-State exempt outward supply | ₹ 5,00,000 |
| Turnover of exported goods | ₹ 10,00,000 |
| Payment made for availing GTA services | ₹ 80,000 |
- Calculate the aggregate turnover of Rama Ltd.**

- 8,00,000
- ₹ 23,80,000
- ₹ 23,00,000
- ₹ 18,00,000 **(MTP 2 Marks, Nov'21)**

Ans: (c)

3. **Rama Ltd. has provided following information for the month of September:**

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- (i) **Intra-State outward supply Rs. 8,00,000/-**
 (ii) **Inter-State exempt outward supply Rs. 5,00,000/-**
 (iii) **Turnover of exported goods Rs. 10,00,000/-**
 (iv) **Payment made for availing GTA services Rs. 80,000/- Calculate the aggregate turnover of Rama Ltd.**
 (a) Rs. 8,00,000/-
 (b) Rs. 23,80,000/-
 (c) Rs. 23,00,000/-
 (d) Rs. 18,00,000/- (MTP 2 Marks, March'19)

Ans: (c)

- 4. Can a registered person opting for composition scheme collect GST on his outward supplies?**
 (a) Yes, in all cases
 (b) Yes, only on such goods as may be notified by the Central Government
 (c) Yes, only on such services as may be notified by the Central Government
 (d) No (MTP 1Marks, Oct'19)

Ans: (d)

- 5. Which of the following is not eligible for opting composition scheme under GST?**
 (a) M/s ABC, a firm selling garments having annual turnover of Rs. 78 lakhs.
 (b) A startup company operating restaurant in Delhi having an annual turnover of Rs. 98 lakhs.
 (c) A courier service company operating solely in Mumbai having annual turnover of Rs. 90 lakhs.
 (d) A trader selling grocery items having an annual turnover of Rs. 95 lakhs. (MTP 1Marks, Oct'19)

Ans: (c)

- 6. C & Co., a registered supplier in Delhi, opted for composition levy under sub-sections (1) and (2) of section 10 of the CGST Act, 2017. It sold goods in the fourth quarter of a financial year for ₹ 15,00,000 (exclusive of GST). The applicable GST rate on these goods is 12%. C & Co. purchased goods from Ramesh & Co., registered in Delhi, for ₹ 9,55,000 on which Ramesh & Co. had charged CGST of ₹ 57,300 and SGST of ₹ 57,300. C & Co. had also purchased goods from E & Co., registered in Haryana, for ₹ 2,46,000 on which E & Co. had charged IGST of ₹ 29,520. GST liability of C & Co. for the fourth quarter of the financial year is-**

- (a) CGST ₹ 7,500 & SGST ₹ 7,500
 (b) CGST ₹ 3,180 & SGST ₹ 32,700
 (c) CGST ₹ 32,700 & SGST ₹ 3,180
 (d) Nil (RTP Nov '20)

Ans: (a)

- 7. Which of the following persons is not eligible for composition scheme even though their aggregate turnover does not exceed Rs 1 crore in preceding FY, in Uttar Pradesh?**
 (a) A person supplying restaurant services
 (b) A person supplying restaurant services and earning bank interest
 (c) A person supplying restaurant services and warehousing of rice
 (d) A person supplying restaurant services and warehousing of processed tea

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Paper 3 - Taxation**(MTP 1Marks, Oct'19)****Ans : (d)**

8. Mr. Dev Anand is engaged in providing services of facilitating sale and purchase of securities to various clients. He is also engaged in trading of securities. His turnover details are as follows:

Trading of securities ₹ 40,00,000/-

Brokerage on account of facilitating transactions in securities ₹ 30,00,000/-

You are required to ascertain aggregate turnover of Mr. Dev Anand under GST:

(a) ₹ 30,00,000/-

(b) ₹ 40,00,000/-

(c) ₹ 70,00,000/-

(d) ₹ NIL. **(RTP May '20)**

Ans: (a)

9. Which of the following services does not fall under reverse charge provisions as contained under section 9(3) of the CGST Act?

(a) Services supplied by arbitral tribunal to business entity

(b) Sponsorship provided to any partnership firm

(c) Sponsorship provided to anybody corporate

(d) None of the above **(MTP 1 Mark, April'19 & March'19)**

Ans: (d)

10. GST is payable by recipient of services in the following cases: -

(i) Services provided by way of sponsorship to ABC Ltd.

(ii) Services supplied by a director of Galaxy Ltd. to Mr. Krishna.

(iii) Services by Department of Posts by way of speed post to MNO Ltd.

(iv) Services supplied by a recovering agent to SNSP Bank

(a) (I) & (iii)

(b) (I) & (iv)

(c) (ii) & (iii)

(d) (ii) & (iv) **(MTP 2 Marks, Oct'19)**

Ans : (b)

As per amendment Services by Department of Posts by way of speed post has been removed from exemptions and will now have GST applicable on RCM basis by the recipient of services)

Hence as per this amendment the answer can be (a) as well. Hence the GST is payable by recipient of services for (i), (iii) & (iv).

11. Which of the following persons is not eligible for composition scheme even though their aggregate turnover does not exceed Rs? 1 crore in preceding FY, in Uttar Pradesh?

(a) A person supplying restaurant services

(b) A person supplying restaurant services and earning bank interest

(c) A person supplying restaurant services and warehousing of rice

(d) A person supplying restaurant services and warehousing of processed tea. **(MTP 1 Marks, March'19)**

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Ans: (d)

12. Which of the following services are notified under section 9(3) of CGST Act, 2017 or section 5(3) of IGST Act, 2017 the tax on which shall be paid on reverse charge basis by the recipient of such supply:

- (i) **Supply of security services provided by a person other than a body corporate to a composition taxpayer**
- (ii) **Services supplied by an insurance agent to insurance company located in taxable territory**
- (iii) **Supply of services by way of renting of hotel accommodation through e-commerce operator.**
- (iv) **Supply of notified categories of goods or services or both by a supplier, who is not registered, to specified class of registered persons.**

Choose from the following options:

- (a) (i) & (ii)
- (b) Only (ii)
- (c) (i), (ii), (iii)
- (d) (i) & (iv) **(RTP May '20)**

Ans: (b)

Question & Answer

Question 1

Mr. Vicky Frankyn, an unregistered famous author, received ₹ 3 crore of consideration from Shiv Bhawan Publications (SBP) located in Indore for supply of services by way of temporary transfer of a copyright covered under section 13(1)(a) of the Copyright Act, 1957 relating to original literary works of his new book. He finished his work & made available the book to the publisher, but has yet not raised the invoice.

Mr. Vicky Frankyn is of the view that SBP is liable to pay tax under reverse charge on services provided by him. SBP does not concur with his view and is not ready to deposit the tax under any circumstances. Examine whether the view of Mr. Vicky Frankyn is correct. Further, if the view of Mr. Vicky Frankyn is correct, what is the recourse available with Mr. Vicky Frankyn to comply with the requirements of GST law as SBP has completely refused to deposit the tax.(RTP Nov '19)

Answer 1

Yes, the view of Mr. Vicky Frankyn is correct. GST is payable under reverse charge in case of supply of services by an author by way of transfer/permitting the use or enjoyment of a copyright covered under section 13(1)(a) of the Copyright Act, 1957 relating to original literary work to a publisher located in the taxable territory in terms of reverse charge Notification No. 13/2017 CT(R) dated 28.06.2017. Therefore, in the given case, person liable to pay tax is the publisher – SBP.

However, since SBP has completely refused to deposit the tax on the given transaction, Mr. Vicky Frankyn has an option to pay tax under forward charge on the same. For the purpose, he needs to fulfill the following conditions: **(As per amendment the Answer is the same but a separate line item has been added in the exemption list)**

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Paper 3 - Taxation

- (i) since he is unregistered, he has to first take registration under the CGST Act, 2017
- (ii) he needs to file a declaration, in the prescribed form, that he exercises the option to pay CGST on the said service under forward charge in accordance with section 9(1) of the CGST Act and to comply with all the provisions as they apply to a person liable for paying the tax in relation to the supply of any goods and/or services and that he shall not withdraw the said option within a period of 1 year from the date of exercising such option;
- (iii) he has to make a declaration on the invoice, which he would issue to SBP, in prescribed form.

Question 2

Mr. Zafar of Assam, provides the following information for the preceding financial year 2022-23. You are required to find out the aggregate turnover for the purpose of eligibility of composition levy scheme and determine whether he is eligible for composition levy scheme or not, for the F.Y. 2023-24.

Particulars	Amount (₹ in lakh)
Value of taxable outward supplies (out of above, ₹ 10 lakh was in course of inter-state transactions).	50.00
Value of exempt supplies (which include ₹ 30 lakh received as interest on loans & advances).	70.00
Value of inward supplies on which he is liable to pay tax under reverse charge	5.00
Value of exports	5.00
All the amounts are exclusive of GST.	

(PYP 6 Marks, Nov'19)

Answer 2

Computation of aggregate turnover of Mr. Zafar for FY 2022-23 for the purpose of eligibility of composition levy scheme

Particulars	Amount in lakh (₹)
Value of taxable outward supplies [Value of all taxable supplies including inter-State supplies are includible in aggregate turnover]	50
Value of exempt supplies [Value of exempt supplies is includible in aggregate turnover. However, value of supply of exempt services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount, though exempt, is not includible in aggregate turnover for determining eligibility for composition scheme]	40
Value of inward supplies on which Mr. Zafar is liable to pay tax under reverse charge [Excludible from aggregate turnover]	Nil
Value of exports [Includible in aggregate turnover]	5

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Paper 3 - Taxation

Aggregate turnover for determining eligibility for composition scheme	95
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A registered person of Assam is eligible to opt for composition levy if his aggregate turnover does not exceed ₹ 1.5 crore in the preceding financial year provided he is not engaged in inter-State outward supplies of goods. Therefore, in the given case, assuming that he is not engaged in making any inter-State outward supply of goods in FY 2023-24, Mr. Zafar is eligible to opt for composition levy for FY 2023-24 since his aggregate turnover does not exceed ₹ 1.5 crore in FY 2022-23.

Question 3

Answer the following, after reading the below given paragraph:

- (i) **Briefly discuss the relevant provision**
- (ii) **decide the correct conclusion and**
- (iii) **determine the validity of the given advice (Correct/Incorrect)**

Raju is engaged in the manufacture of 'Fly ash Bricks' in the State of Kerala. He started his activity in the month of April 2023 and deals only in intra-State. His tax consultant advised him to register under composition levy under GST as Raju's turnover is expected to be below ₹ 1 crore for the said financial year. (PYP 2 Marks Nov'22)

Answer 3

A registered person whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore in a State/UT may opt for composition scheme subject to fulfilment of specified conditions.

One of these conditions is that he must not be engaged in the manufacture of notified goods including fly ash bricks.

Therefore, in the given case, since Raju is engaged in manufacture of fly ash bricks, he cannot opt for composition levy even though his aggregate turnover in the preceding financial year is nil. Thus, the advice given by his tax consultant is not correct.

Question 4

M/s. Modish and Stylish Company is a partnership firm of interior decorators and also running a readymade garment showroom. Turnover of the showroom was Rs. 80 lakh and receipts of the interior decorator's service was Rs. 22 Lakh in the preceding financial year.

With reference to the provisions of the CGST Act, 2017, examine whether the firm can opt for the composition scheme?

Will your Answer change, if the turnover of the showroom was Rs. 70 lakh and receipts of the interior decorator's service was Rs. 22 Lakh in the preceding financial year?

Also discuss whether it is possible for M/s. Modish and Stylish Company to opt for composition scheme only for showroom? (MTP 6 Marks, Oct'18)

Answer 4

A registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 1 crore (**As per amendment- the limit has been changed to Rs. 1.5 crore**) [Rs. 75 lakhs in case of special category States except Jammu and Kashmir and Uttarakhand], may opt for composition scheme vide section 10 of CGST Act, 2017. However, he shall not be eligible to opt for composition scheme if, inter alia, he is engaged in the supply of services other than restaurant services.

In the given case, since M/s Modish and Stylish Company is engaged in supply of

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interior decorator's service, it is not eligible to opt for composition scheme irrespective of its turnover in the preceding financial year.

Therefore, the Answer will remain the same i.e., the company will not be eligible to opt for composition scheme even with the change in the turnovers as given in the second case.

Further, where more than one registered persons are having the same Permanent Account Number, the registered person shall not be eligible to opt for composition scheme unless all such registered persons opt to pay tax under composition scheme. Therefore, the Answer will not change in the third case also as all the registrations under the same PAN are required to opt for composition scheme and since the supply of interior decorator service is ineligible for composition scheme, supply of readymade garments too becomes ineligible for composition scheme.

Question 5

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

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

From the information given above, you are required to calculate the aggregate turnover of B Enterprises with necessary explanations and also, specify with reason whether it is liable to get registered under CGST Act or not. (MTP 6 Marks April '23)

Answer 5

Computation of aggregate turnover of B Enterprises, Karnataka, for January

Particulars	(₹)
Intra-State outward taxable supply of goods [Aggregate turnover includes value of all taxable supplies.]	7,00,000
Inter-State outward taxable supply of services [Aggregate turnover includes value of inter-State supplies.]	6,00,000
Intra-State outward supply on which tax is payable under reverse charge mechanism [Aggregate turnover includes value of all taxable supplies whether taxable under reverse charge or forward charge.]	1,00,000
Intra-State outward supply of exempted goods from Manipur [Aggregate turnover includes value of exempt supplies made in all the States under the same PAN]	5,00,000
Aggregate turnover	19,00,000

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Persons making any inter-State taxable supply of goods are required to obtain compulsory registration, but in case of inter-State supply of taxable services, threshold limit of ₹ 20 lakh is available.

Such threshold limit gets reduced to ₹ 10 lakh in case of specified Special Category State provided taxable supply is being made therefrom.

Since B Enterprises is making exempt supplies from Manipur - a specified Special Category State, the applicable threshold limit of registration for B Enterprises is ₹ 20 lakh. Thus, it is not liable to be registered as its aggregate turnover does not exceed the threshold limit.

Question 6

- (i) **Who are not eligible to opt for composition scheme for goods under GST Laws?**
- (ii) **GTA services provided to an unregistered person (including unregistered casual taxable person) are exempt from GST by virtue of Entry 21 A of GST Laws. Discuss the validity of above statement. (PYP 5 Marks May '23)**

Answer 6

The registered person who is not eligible for composition scheme for goods under GST law are as under:

- (i) Supplier engaged in making any supply of goods or services which are not leviable to tax.
- (ii) Supplier engaged in making any inter-State outward supplies of goods or services.
- (iii) Person supplying any goods or services through an electronic commerce operator who is required to collect tax at source (under section 52).
- (iv) Manufacturer of ice cream, panmasala, tobacco, aerated waters, fly ash bricks; fly ash aggregate, fly ash blocks, bricks of fossil meals or similar siliceous earths, building bricks, earthen or roofing tiles.
- (v) Supplier who is either a casual taxable person or a non-resident taxable person
- (vi) Supplier of services exceeding an amount which is higher of 10% of the turnover in a State/U.T. in the preceding financial year or ₹ 5 lakh.

The said statement is invalid.

Services provided by a GTA to an unregistered person, including an unregistered casual taxable person are exempt except when provided to a:

- (a) factory
- (b) society
- (c) co-operative society
- (d) body corporate
- (e) partnership firm
- (f) registered casual taxable person

Question 7

Decide which person is liable to pay GST in the following independent cases,

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where the recipient is located in the taxable territory. Ignore the Aggregate Turnover and Exemption available.

- (i) Miss Shinu Ambani provided sponsorship services to Indian Love Cricket Academy, a Limited Liability Partnership.
- (ii) "Fast move", a Goods Transport Agency, transported goods of Amba & Co., a partnership firm which is not registered under GST. (PYP 3 Marks , Nov '18)

Answer 7

- i. In case of services provided by any person by way of sponsorship to anybody corporate or partnership firm / limited liability partnership (LLP), GST is liable to be paid under reverse charge by such body corporate or partnership firm / LLP located in the taxable territory. Therefore, in the given case, Indian Love Cricket Academy is liable to pay GST under reverse charge.
- ii. In case of services provided by Goods Transport Agency (GTA) in respect of transportation of goods by road to, inter alia, any partnership firm whether registered or not under any law; GST is liable to be paid by such partnership firm. Therefore, in the given case, Amba & Co. is liable to pay GST under reverse charge.

Question 8

"Wedding Bells", a wedding photographer, has commenced providing pre-wedding shoot services in Jaipur from the beginning of current financial year 2023-2024. It has provided the following details of turnover for the various quarters till December, 2023 :-

S. No.	Quarter	Amount (₹ in lakh)
1	April,2023-June,2023	20
2	July,2023-September,2023	30
3	October,2023-December,2023	40

You may assume the applicable tax rate as 18%. Wedding Bells wishes to pay tax at a lower rate and opts for the composition scheme. You are required to advise whether it can do so and calculate the amount of tax payable for each quarter? (RTP May '21)

Answer 8

Section 10(2A) of the CGST Act, 2017 provides the turnover limit of ₹ 50 lakh in the preceding financial year for becoming eligible for composition levy for services. Wedding Bells has started the supply of services in the current financial year (FY), thus, it's aggregate turnover in the preceding FY is Nil. Consequently, in the current FY, Wedding Bells is eligible for composition scheme for services. A registered person opting for composition levy for services shall pay tax @ 3% [Effective rate 6% (CGST+SGST/UTGST)] of the turnover of supplies of goods and services in the State.

Further, Wedding Bells becomes eligible for the registration when the aggregate turnover exceeds ₹ 20 lakh (the threshold limit of obtaining registration). While registering under GST, Wedding Bells can opt for composition scheme for services.

The option of a registered person to avail composition scheme for services shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds the threshold limit of ₹ 50 lakh.

However, for the purposes of determining the tax payable under composition scheme, the expression "turnover in State" shall not include the value of supplies from the first day of April of a FY up to the date when such person becomes liable for registration under this Act.

Thus, for determining the turnover of the State for payment of tax under composition

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scheme for services, turnover of April, 2023 – June, 2023 quarter [₹ 20 lakh] shall be excluded. On next ₹ 30 lakh [turnover of July, 2023 – September, 2023 quarter], it shall pay tax @ 6% [3% CGST and 3% SGST].

For the purposes of computing aggregate turnover of a registered person for determining his eligibility to pay tax under this section, aggregate turnover includes value of supplies from the 1st April of a FY up to the date of his becoming liable for registration.

Thus, while computing aggregate turnover for determining Wedding Bells's eligibility to pay tax under composition scheme, value of supplies from the first day of April of a financial year up to the date when it becomes liable for registration under this Act (i.e. turnover of April, 2023 – June, 2023 quarter), are included.

By the end of July, 2023 – September, 2023 quarter, the aggregate turnover reaches ₹ 50 lakh. Consequently, the option to avail composition scheme for services shall lapse by the end of July, 2023 – September, 2023

quarter and thereafter, it is required to pay tax at the normal rate of 18%.

Considering the above provisions, the tax payable for each quarter is as under:-

S. No.	Quarter	GST rate [CGST + SGST]	Turnover (₹ in lakh)	GST payable (₹ in lakh)
1	April, 2023 – June, 2023	-	20	-
2	July, 2023 – September, 2023	6%	30	1.8
3	October, 2023 – December, 2023	18%	40	7.2

Question 9

Explain in brief the conditions to be fulfilled by a registered person under GST law for availing the option to pay concessional tax @ 3% (effective rate 6%) under GST as per the provisions of notification number 2/2019 CT(R) dated 7-3-2019 as amended, with effect from 1st April, 2019. (PYP 5 Marks, Nov'19)

Answer 9

The registered person desirous of availing the option to pay concessional tax @ 3% (effective rate 6%) under Notification No. 2/2019 CT (R) dated 7-3-2019 should -

- (i) Not be engaged in making any supply which is not taxable to tax.
- (ii) Not be engaged in making any inter-state outward supply of goods and/or services.
- (iii) Neither be a casual taxable person nor a non-resident taxable person.
- (iv) Not be engaged in making any supply through an electronic commerce operator who is required to collect tax at source.
- (v) Not be engaged in making supplies of notified goods.
- (vi) Neither collect any tax from the recipient nor be entitled to any input tax credit.
- (vii) Issue a bill of supply instead of tax invoice.
- (viii) Not have the aggregate turnover in the preceding financial year exceeding ₹ 50 lakh
- (ix) Not be eligible for composition scheme.

Note: any five conditions may be mentioned out of the above mentioned nine conditions.

Question 10

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Mr. Ajay has a registered repair centre where electronic goods are repaired/serviced. His repair centre is located in State of Rajasthan and he is not engaged in making any inter-State supply of services. His aggregate turnover in the preceding financial year (FY) is ₹ 45 lakh.

With reference to the provisions of the CGST Act, 2017, examine whether Mr. Ajay can opt for the composition scheme in the current financial year (FY)? Is he eligible to avail benefit of concessional payment of tax under Notification No. 2/2019 CT (R) dated 07.03.2019? Considering the option of payment of tax available to Mr. Ajay, compute the amount of tax payable by him assuming that his aggregate turnover in the current financial year is ₹ 35 lakh.

Will your Answer be different if Mr. Ajay procures few items required for providing repair services from neighbouring State of Madhya Pradesh? (RTP May '20)

Answer 10

Section 10 of the CGST Act, 2017 provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore (₹ 75 lakh in Special Category States except Assam, Himachal Pradesh and Jammu and Kashmir), may opt to pay, in lieu of the tax payable by him, an amount calculated at the specified rates. However, if, inter alia, such registered person is engaged in the supply of services other than restaurant services, he shall not be eligible to opt for composition levy.

In the given case, since Mr. Ajay is a supplier of repair services, he is not eligible for composition scheme even though his aggregate turnover in the preceding FY does not exceed ₹ 1.5 crore. Therefore, he has to discharge his tax liability under regular provisions at the applicable rates. However, with effect from 01.04.2019, Notification No. 2/2019 CT (R) dated 07.03.2019 has provided an option to a registered person whose aggregate turnover in the preceding financial year is upto ₹ 50 lakh and who is not eligible to pay tax under composition scheme, to pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] on first supplies of goods and/or services upto an aggregate turnover of ₹ 50 lakh made on/after 1st April in any FY, subject to specified conditions.

Thus, in view of the above-mentioned provisions, Mr. Ajay is eligible to avail the benefit of concessional payment of tax under Notification No. 2/2019 CT (R) dated 07.03.2019 as his aggregate turnover in the preceding FY does not exceed ₹ 50 lakh and he is not eligible to opt for the composition scheme. Thus, the amount of tax payable by him under Notification No. 2/2019 CT (R) dated 07.03.2019 is ₹ 2,10,000 [6% of ₹ 35 lakh]. A registered person cannot opt for Notification No. 2/2019 CT (R) dated 07.03.2019, if inter alia, he is engaged in making any inter-State outward supplies. However, there is no restriction on inter-State procurement of goods. Hence, Answer will remain the same even if Mr. Ajay procures few items from neighbouring State of Madhya Pradesh.

Question 11

A person availing composition scheme, under sub-sections (1) & (2) of section 10, in Haryana during a financial year crosses the turnover of ₹ 1.5 crore in the month of December. Will he be allowed to pay tax under composition scheme for the remainder of the year, i.e. till 31st March? Please advise. (MTP 4 Marks, Oct'21)

Answer 11

No. The option to pay tax under composition scheme lapses from the day on which the aggregate turnover of the person availing composition scheme for goods during the financial year exceeds the specified limit (₹ 1.5 crore). Once he crosses the threshold, he is required to file an intimation for withdrawal from the scheme in prescribed form within 7 days of the occurrence of such event.

Every person who has furnished such an intimation, may electronically furnish at the common portal, a statement in prescribed form containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him on the date on which the option is withdrawn, within a period of 30 days from the

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date from which the option is withdrawn.

Question 12

M/s. Handsome and Likemi Company, a partnership firm at Mumbai is running a mobile phone showroom. Along with mobile phone showroom, it is also engaged in providing health and fitness services. Turnover of the mobile phone showroom was ₹ 78 lakh and receipts of the health and fitness service was ₹ 26 lakh in the preceding financial year.

- (i) **With reference to the provisions of the CGST Act, 2017, examine whether the firm can opt for the composition scheme,**
- (ii) **Will your Answer change, if the turnover of the mobile phone showroom was ₹ 74 lakh and receipts of the health and fitness service was ₹ 18 lakh in the preceding financial year?**
- (iii) **If M/s. Handsome and Likemi Company obtain separate registration for their mobile phone showroom & for health fitness centre, can it opt for composition scheme only for mobile phone showroom? (RTP Nov '18)**

Answer 12

A registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1 crore (**As per amendment- the limit has been changed to Rs. 1.5 crore**) [₹ 75 lakh in case of special category States except Jammu and Kashmir and Uttarakhand], may opt for composition scheme vide section 10 of CGST Act, 2017.

~~However, he shall not be eligible to opt for composition scheme if, inter alia, he is engaged in the supply of services other than restaurant services.~~ (**As per amendment**)

- (i) In the given case, since M/s Handsome and Likemi Company is engaged in supply of health and fitness service, it is not eligible to opt for composition scheme irrespective of its turnover in the preceding financial year.
- (ii) The Answer will remain the same i.e., M/s. Handsome & Likemi Company will not be eligible to opt for composition scheme even with the change in the turnovers.
- (iii) Where more than one registered persons are having the same Permanent Account Number, the registered person shall not be eligible to opt for composition scheme unless all such registered persons opt to pay tax under composition scheme.

Therefore, M/s. Handsome and Likemi Company will not be able to opt for composition scheme only for mobile phone showroom as all the registrations under the same PAN have to opt for composition scheme and since the supply of health and fitness service is ineligible for composition scheme, supply of mobile phones too becomes ineligible for composition scheme.

Question 13

Swaminathan started the business of supplying shoes in the State of Kerala from 1st April. He makes only intra-State supplies. His turnover for April - June quarter was ₹ 20 lakh and for July - September quarter was ₹ 100 lakh. Further, one-fourth of his total turnover in each of the quarters was exempt from GST. Being eligible for composition scheme, Swaminathan got himself registered under the composition scheme with effect from 1st July.

You are required to compute the tax payable by Swaminathan under composition scheme assuming that he is a manufacturer. Will your answer be different if Swaminathan is trader. (MTP 6 Marks Sep'22)

Answer 13

A registered person opting for composition levy for goods pays tax at the rates mentioned

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below during the current FY, in lieu of the tax payable by him under regular scheme:

Manufacturers, other than manufacturers of notified goods	1% (½% CGST+ ½% SGST/UTGST) of the turnover in the State/ Union territory
Trader	1% (½% CGST+ ½% SGST/UTGST) of turnover of taxable supplies of goods & services in the State/ Union territory

Turnover prior to obtaining registration will not be considered for determining the turnover in a State/Union Territory.

Tax payable by Swaminathan under composition scheme is as follows:

$$\text{CGST} = ₹ 100 \text{ lakh} \times 0.5\% = ₹ 50,000$$

$$\text{SGST} = ₹ 100 \text{ lakh} \times 0.5\% = ₹ 50,000$$

In case where Swaminathan is a trader, tax payable by him under composition scheme will be as follows:

$$\text{CGST} = ₹ 75 \text{ lakh (as 25\% of turnover is exempt)} \times 0.5\% = ₹ 37,500$$

$$\text{SGST} = ₹ 75 \text{ lakh (as 25\% of turnover is exempt)} \times 0.5\% = ₹ 37,500$$

Question 14

- (a) **Chanchal started providing beauty and grooming services and inaugurated “Care & Care Beauty Centre” in Janak Puri, Delhi on 01st April, 20XX. She opted to pay tax under Notification No. 2/2019 CT (R) dated 07.03.2019 in the said financial year.**

The aggregate turnover of Care & Care Beauty Centre for the quarter ending 30th June, 20XX was ₹ 20 lakh. Further, for the half year ending 30th September, 20XX, the turnover reached ₹ 50 lakh. Care & Care Beauty Centre recorded a rapid growth and the turnover reached ₹ 70 lakh by the end of October, 20XX. Determine the total tax liability of Care & Care Beauty Centre by the end of October, 20XX.

- (b) **Care & Care Beauty Centre wishes to opt for composition scheme from the next financial year. You are required to advise it whether it can do so?**

Note: Rate of GST applicable on such services is 18%. (RTP Nov '19)

Answer 14

- (a) Notification No. 2/2019 CT (R) dated 07.03.2019 provides an option to a registered person to pay CGST @ 3% [Effective rate 6% (CGST+ SGST/ UTGST)] on first supplies of goods and/or services upto an aggregate turnover of ₹ 50 lakh made on/after 1st April in any financial year, subject to specified conditions.

It is clarified in the notification that first supplies of goods or services or both shall, for the purposes of determining eligibility of a person to pay tax under this notification, include the supplies from 1st April of a FY to the date from which he becomes liable for registration under the said Act, but for the purpose of determination of tax payable under this notification, shall not include the supplies from the first day of April of a financial year to the date from which he becomes liable for registration under the Act. Thus, Care & Care Beauty Centre is eligible to pay tax under this notification upto the turnover of ₹ 50 lakh. The total tax payable by it is as under: -

Period	Tax Rate	Turnover (₹)	Tax liability (₹)
I Quarter	Since turnover did not exceed ₹ 20 lakh, it was not required to obtain	20 Lakh	Nil

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	registration. Hence, no tax was required to be paid		
II Quarter	Effective rate is 6% (CGST+ SGST/ UTGST) under Notification No. 2/2019 CT (R)	30 Lakh [(50-20) lakh]	1,80,000
For the month of October, 20XX	Normal rate of GST of 18% is to be applied	20 lakh [(70-50) lakh]	3,60,000
Total tax payable			5,40,000

- (b) No, Care & Care Beauty Centre cannot opt for composition scheme from the next financial year. Fundamentally, the composition scheme can be availed in respect of goods and only one service namely, restaurant service. As regards services other than restaurant services are concerned, only marginal supply of the such services for a specified value along with the supply of goods and/or restaurant service, as the case may be, is permitted under section 10(1) of CGST Act, 2017. Therefore, a person engaged exclusively in supply of services other than restaurant services is not eligible to opt for composition scheme.

Question 15

Subramanian Enterprises has two registered places of business in Delhi. Its aggregate turnover for the preceding year for both the places of business was ₹ 120 lakh. It wishes to pay tax under composition levy, under section 10(1) & 10(2), for one of the places of business in the current year while under normal levy for other. You are required to advice Subramanian Enterprises whether he can do so? (MTP 4 Marks, Nov'21)

Answer 15

A registered person with an aggregate turnover in a preceding financial year up to ₹ 1.5 crore is eligible for composition levy, under section 10(1) & 10(2), in Delhi. Since the aggregate turnover of Subramanian Enterprises does not exceed ₹ 1.5 crore, it is eligible for composition levy in the current year. However, all registered persons having the same Permanent Account Number (PAN) have to opt for composition scheme. If one such registered person opts for normal scheme, others become ineligible for composition scheme. Thus, Subramanian Enterprises either have to opt for composition levy for both the places of business or under normal levy for both the places of business.

Question 16

In the following independent cases, decide, who is liable to pay GST, if any.

You may assume that recipient is located in the taxable territory. Ignore the aggregate turnover and exemption available.

- 'Veer Transport', a registered Goods Transport Agency (GTA) paying IGST @ 12%, transported goods by road of Dili & Company, a sole proprietary firm (other than specified person) which is not registered under GST or any other Law. (PYP 2 Marks, Nov'20)**
- Mr. Kamal Jain, an unregistered famous author, received ₹ 20 lakh of consideration from PQR Publications Ltd. for supply of services by way of temporary transfer of a copyright covered under section 13(1)(a) of the Copyright Act, 1957 relating to original literary works of his new book. (PYP 2 Marks, Nov'20)**

Answer 16

- In case of a GTA service, where GST is payable @ 5% and recipient is one of the

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specified recipients, tax is payable by the recipient of service under reverse charge. However, where GST is payable @ 12%, tax is payable under forward charge by the supplier of service. Therefore, in the given case, tax is payable under forward charge by "Veer Transport", a registered GTA. Note in the given case, since the recipient of service is other than specified recipient, i.e., unregistered sole proprietorship firm, GTA service is exempt from GST. However, in the above answer, the said exemption has been ignored since the question specifically requires the students to ignore the exemptions, if any, available.

- (ii) Supply of services by an author by way of transfer of a copyright covered under section 13(1)(a) of the Copyright Act, 1957 relating to original literary works to a publisher located in the taxable territory is taxable under reverse charge mechanism. Thus, in the given case, the recipient of service, i.e. PQR Publications Ltd. is liable to pay GST. The tax can be paid by the author under forward charge if the author is a registered person. Since in the given case, the author is an unregistered person, the said option is not available to him.

Question 17

M/s Sai Trading Company, an eligible registered dealer in goods making intra - state supplies within the state of Andhra Pradesh, has reported an aggregate turnover of ` 78 Lakhs in the preceding financial year.

- (i) **Determine whether Sai Trading Company will be eligible for composition levy, as on 31-10-2023.**
- (ii) **Will your answer be different, if in the above scenario, M/s Sai Trading Company is making intra state supply within the state of Jammu and Kashmir? (PYP 3 Marks, May'18)**

Answer 17

- (i) Section 10 of CGST Act, 2017 provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed ` 1 crore (**As per amendment- the limit has been changed to Rs. 1.5 crore**) may opt for composition scheme. The turnover limit is ` 75 lakh in case of Special Category States. However, for Jammu and Kashmir and Uttarakhand, the turnover limit is ` 1 crore only (**As per amendment- the limit has been changed to Rs. 1.5 crore**). In the given case, the applicable turnover limit for composition scheme will be ` 1 crore as Andhra Pradesh is not a Special Category State. Further, since the aggregate turnover of the registered person in the given case does not exceed ` 1 crore (**As per amendment- the limit has been changed to Rs. 1.5 crore**) and it satisfies other conditions of composition scheme namely, not making inter-State supplies of goods, it is eligible for composition levy.
- (ii) Since the turnover limit for determining the eligibility for composition scheme in the State of Jammu and Kashmir is also ` 1 crore (**As per amendment- the limit has been changed to Rs. 1.5 crore**), Sai Trading Company will be eligible for composition levy with other condition of not making inter-State supplies of goods being fulfilled.

Question 18

Examine given cases and determine the persons liable to pay tax in each of the following independent cases:

- (i) **Dharam Shastri, an independent director of Universe Pvt. Ltd., has received sitting fee amounting to ₹ 1 lakh from Universe Pvt. Ltd. for attending the Board meetings.**
- (ii) **Chandan Associates provided sponsorship services to Virat Cricket Academy, an LLP.**

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- (iii) **Legal Fees is received by Gaba, an advocate, from M/s. Naveen Consultants having turnover of ₹ 50 lakh in preceding financial year. (MTP 6 Marks Oct'22)**

Answer 18

- (i) GST on supply of services by director of a company to the said company located in the taxable territory is payable on reverse charge basis.

Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., Universe Pvt. Ltd.

- (ii) In case of services provided by any person by way of sponsorship to any body corporate or partnership firm, GST is liable to be paid under reverse charge by such body corporate or partnership firm located in the taxable territory.

Further, for the reverse charge purposes, Limited Liability Partnership formed and registered under the provisions of the Limited Liability Partnership Act, 2008 is also be considered as a partnership firm. Therefore, in the given case, Virat Cricket Academy is liable to pay GST under reverse charge.

- (iii) GST on legal services supplied by an advocate [Mr. Gaba] to any business entity [M/s Naveen Consultants] located in the taxable territory is payable on reverse charge basis.

Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., M/s. Naveen Consultants.

Question 19

P Ltd, a registered person provided following information for the month of October, 2023:

Particulars	Amount (₹)
Intra-State outward supply	8,00,000
Inter-State exempt outward supply	4,00,000
Turnover of exported goods	20,00,000
Payment of IGST	1,20,000
Payment of CGST and SGST	45,000 each
Payment of custom duty on export	40,000
Payment made for availing GTA services	3,00,000

GST is payable on Reverse Charge for GTA services. Explain the meaning of aggregate turnover u/s 2(6) of the CGST Act and compute the aggregate turnover of P Ltd. for the month of October, 2023. All amounts are exclusive of GST. (PYP 5 Marks, July'21)

Answer 19

The term aggregate turnover means the aggregate value of:

- (i) all taxable supplies
- (ii) exempt supplies,
- (iii) exports of goods or services or both and
- (iv) inter-State supplies of persons having the same Permanent Account Number, to be computed on all India basis but excluding
 - (i) central tax, State tax, Union territory tax, integrated tax and cases.
 - (ii) the value of inward supplies on which tax is payable by a person on reverse charge basis

Computation of aggregate turnover of P Ltd. for the month of October, 2023

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Particulars	Amount (₹)
In terms of the definition of the aggregate turnover given above, the aggregate turnover of P Ltd. has been computed as follows:	
Intra-State outward supply	8,00,000
Inter-State exempt outward supply	4,00,000
Turnover of exported goods	20,00,000
Payment of IGST	Nil
Payment of CGST and SGST	Nil
Payment of customs duty on export	40,000
Payment made under reverse charge for availing GTA services	Nil
Aggregate turnover	32,40,000

Question 20

Nesamani started his business activities in the month of February 2024 in the State of Orissa. He provided the following details:

Particulars	Amount in ₹
(i) Outward supply of petrol (Intra State)	4,00,000
(ii) Transfer of exempt goods to his branch in Rajasthan (Inter- State)	2,00,000
(iii) Outward supply of taxable goods by his branch in Uttar Pradesh (Intra State)	5,00,000
(iv) Outward supply of services on which tax is payable under RCM by the recipient of services (Intra-State)	6,00,000
(v) Inward supply of services on which tax is payable under RCM (Intra- State)	2,00,000

From the information given above, compute the aggregate turnover of Nesamani and also decide whether he is required to get registration under GST. Assume that the amounts given above are exclusive of taxes. (PYP 5 Marks Nov '22)

Answer 20

Particulars	Amount (₹)
Computation of aggregate turnover of Nesamani	
Outward supply of petrol [Supply of petrol being a non-taxable supply is an exempt supply. Value of exempt supply is includible in aggregate turnover.]	4,00,000
Inter-State stock transfer of exempt goods [Supply of taxable/exempt goods between distinct persons is includible.]	2,00,000
Outward supply of taxable goods from Uttar Pradesh branch [Value of outward supplies	5,00,000

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under same PAN are includible.]	
Outward supply of services taxable under reverse charge [Includible in aggregate turnover.]	6,00,000
Inward supply of services taxable under reverse charge [Excludible from the aggregate turnover.]	--
Aggregate turnover	17,00,000

For a supplier engaged in supply of goods and services from the States of Orissa and Uttar Pradesh, the threshold limit of aggregate turnover to obtain registration is ₹ 20 lakh. However, a person required to pay tax under reverse charge has to obtain registration compulsorily irrespective of the quantum of turnover.

Since in the given case, Nesamani is required to pay tax under reverse charge, it is liable to obtain registration compulsorily irrespective of his quantum of turnover.

Question 21

Enumerate the persons who are not eligible to opt for Composition Scheme under section 10(2) of the CGST Act, 2017. (PYP 5 Marks, May'19)

Answer 21

A registered person shall not be eligible to opt for composition scheme if: - he is engaged in supply of services other than supplies referred to in clause (b) of paragraph 6 of Schedule II

- (i) he is engaged in supply of goods not loveable to tax
- (ii) he is engaged in inter-State outward supplies of goods
- (iii) he is engaged in supply of goods through an electronic commerce operator
- (iv) he is a manufacturer of notified goods, namely, manufacturer of ice cream, pan masala and tobacco.

Question 22

Mr. Anurag, a famous Author is engaged in supply of services by the way of transfer or permitting the use or enjoyment of a copyright covered under clause (a) of sub-section (1) of section 13 of the Copyright Act, 1957 relating to original literary works to a publisher. Explain in brief the conditions under which an Author can choose to pay tax under forward charge. (PYP 5 Marks, Jan'21)

Answer 22

Mr. Anurag, an author, can choose to pay tax under forward charge provided he fulfills the following conditions: -

- (i) He has taken registration under the GST law.
- (ii) He has filed a declaration, in the prescribed form, that he exercises the option to pay tax on the said service under forward charge and, to comply with all the provisions of the GST law as they apply to a person liable for paying the tax in relation to the supply of any goods and/or services and that he shall not withdraw the said option within a period of 1 year from the date of exercising such option.
- (iii) He makes a declaration on the invoice issued by him in prescribed form to the publisher.

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Question 23

Determine whether the suppliers in the following cases are eligible for composition levy, under section 10(1) & 10(2) of the CGST Act, 2017, provided their turnover in preceding year does not exceed ₹ 1.5 crore:

- (i) Mohan Enterprises is engaged only in trading of pan masala in Rajasthan and is registered in the same State.
- (ii) Sugam Manufacturers has registered offices in Punjab and Haryana and sells goods manufactured by it in the neighboring States. (MTP 4 Marks Sep '23)

Answer 23

- (i) A supplier engaged in the manufacture of goods as notified under section 10(2)(e) of the CGST Act, 2017, during the preceding FY is not eligible for composition scheme under section 10(1) and 10(2). Ice cream and other edible ice, whether or not containing cocoa, Pan masala, Tobacco and manufactured tobacco substitutes, aerated waters, fly ash bricks, fly ash aggregate, fly ash blocks, bricks of fossil meals or similar siliceous earths, building bricks, earthen or roofing tiles are notified under this category. However, in the given case, since Mohan Enterprises is engaged in trading of pan masala and not manufacture and his turnover does not exceed ₹ 1.5 crore, he is eligible for composition scheme subject to fulfilment of specified conditions.
- (ii) Since supplier of inter-State outward supplies of goods or services is not eligible for composition levy, Sugam Manufacturers is not eligible for composition levy.

Question 24

Mr. Guneet is running a consulting firm and also a readymade garment showroom in Kolkata registered in same PAN. Turnover of the showroom is Rs. 70 lakh and receipt of consultancy firm is Rs. 15 lakhs in the preceding financial year. You are required to Answer the following:

- (1) Is Mr. Guneet eligible for composition scheme?
- (2) Is it possible for Mr. Guneet to opt for composition scheme only for showroom? (MTP 4 Marks, April'19)

Answer 24

A registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 1 crore (**As per amendment- the limit has been changed to Rs. 1.5 crore**) in a State/UT [Rs. 75 lakhs in case of Special Category States except Jammu and Kashmir and Uttarakhand], may opt for composition scheme.

However, he shall not be eligible to opt for composition scheme if, inter alia, he is engaged in the supply of services other than restaurant services.

- (1) In the given case, since Mr. Guneet is engaged in the supply of consultancy service, he is not eligible to opt for composition scheme irrespective of its turnover in the preceding financial year.
- (2) No, it is not possible for Mr. Guneet to opt for composition scheme only for showroom as all the registrations under the same PAN have to opt for composition scheme and since the supply of consultancy service is ineligible for composition scheme, supply of readymade garments too becomes ineligible for composition scheme.

Question 25

M/s United Electronics, a registered dealer, is supplying all types of electronic appliances in the State of Karnataka. Its aggregate turnover in the preceding financial year by way of supply of appliances is ₹ 120 lakh.

The firm also expects to provide repair and maintenance service of such appliances from the current financial year.

With reference to the provisions of the CGST Act, 2017, examine:

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- (i) **Whether the firm can opt for the composition scheme, under section 10(1) and 10(2), for the current financial year, as the turnover may include supply of both goods and services?**
- (ii) **If yes, up to what amount, the services can be supplied? (MTP 6 Marks March '23)**

Answer 25

- (i) The registered person, whose aggregate turnover in the preceding financial year does not exceed ₹ 1.5 crore, may opt to pay tax under composition levy, under section 10(1) and 10(2).

The scheme can be availed by an intra-State supplier of goods and supplier of restaurant service.

However, the composition scheme permits supply of marginal services (other than restaurant services) for a specified value along with the supply of goods and restaurant service, as the case may be.

Thus, M/s United Electronics can opt for composition scheme for the current financial year as its aggregate turnover is less than ₹ 1.5 crore in the preceding financial year and it is not engaged in inter-State outward supplies.

- (ii) The registered person opting for composition scheme, under section 10(1) and 10(2), can also supply services (other than restaurant services) for a value up to 10% of the turnover in the preceding year or ₹ 5 lakh, whichever is higher, in the current financial year.

Thus, M/s United Electronics can supply repair and maintenance services up to a value of ₹ 12 lakh [10% of ₹ 120 lakh or ₹ 5 lakh, whichever is higher] in the current financial year

Question 26

List the inclusions and exclusions for computing the "Aggregate Turnover" under CGST Act, 2017. (PYP 5 Marks, May'18)

Answer 26

Aggregate turnover includes the aggregate value of all:

- (i) taxable supplies,
- (ii) exempt supplies,
- (iii) exports of goods and/or services and
- (iv) inter-State supplies of persons having the same PAN., to be computed on all India basis

Aggregate turnover excludes: -

- (i) value of inward supplies on which tax is payable by a person on reverse charge basis,
- (ii) central tax, State tax, Union territory tax, integrated tax and
- (iii) cases

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Question 7

Decide which person is liable to pay GST in the following independent cases, where the recipient is located in the taxable territory. Ignore the Aggregate Turnover and Exemption available.

- (i) **Miss Shinu Ambani provided sponsorship services to Indian Love Cricket Academy, a Limited Liability Partnership.**
- (ii) **“Fast move”, a Goods Transport Agency, transported goods of Amba & Co., a partnership firm which is not registered under GST. (PYP 3 Marks , Nov '18)**

Answer 7

- i. In case of services provided by any person by way of sponsorship to anybody corporate or partnership firm / limited liability partnership (LLP), GST is liable to be paid under reverse charge by such body corporate or partnership firm / LLP located in the taxable territory. Therefore, in the given case, Indian Love Cricket Academy is liable to pay GST under reverse charge.
- ii. In case of services provided by Goods Transport Agency (GTA) in respect of transportation of goods by road to, inter alia, any partnership firm whether registered or not under any law; GST is liable to be paid by such partnership firm. Therefore, in the given case, Amba & Co. is liable to pay GST under reverse charge.

Section B

Question 1

State the person liable to pay GST in the following independent cases provided recipient is located in the taxable territory:

- (a) **Services provided by an arbitral tribunal to any business entity.**
- (b) **Sponsorship services provided by a company to an individual.**
- (c) **Renting of immovable property service provided by the Central Government to a registered business entity.**

Answer 1

- a) Since GST on services provided or agreed to be provided by an arbitral tribunal to any business entity located in the taxable territory is payable under reverse charge, in the given case, GST is payable by the recipient - business entity.
- b) GST on sponsorship services provided by any person to anybody corporate or partnership firm located in the taxable territory is payable under reverse charge. Since in the given case, services have been provided to an individual, reverse charge provisions will not be attracted. GST is payable under forward charge by the supplier - company.
- c) GST on services supplied by Central Government, State Government, Union territory or local authority by way of renting of immovable property to a person registered under CGST Act, 2017 is payable under reverse charge. Therefore, in the given case, GST is payable under reverse charge by the recipient -

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registered business entity.

Question 2

Vivek Goyal, an independent director of A2Z Pvt. Ltd., has received sitting fee amounting to ₹ 1 lakh from A2Z Pvt. Ltd for attending the Board meetings. Who is the person liable to pay tax in this case?

Answer 2

GST on supply of services by director of a company to the said company located in the taxable territory is payable on reverse charge basis. Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., A2Z Pvt. Ltd.

Question 3

Raghu Associates provided sponsorship services to WE-WIN Cricket Academy, an LLP. Determine the person liable to pay tax in this case.

Answer 3

In case of services provided by any person by way of sponsorship to any body corporate or partnership firm, GST is liable to be paid under reverse charge by such body corporate or partnership firm located in the taxable territory. Further, for the reverse charge purposes, Limited Liability Partnership formed and registered under the provisions of the Limited Liability Partnership Act, 2008 is also be considered as a partnership firm. Therefore, in the given case, WE-WIN Cricket Academy is liable to pay GST under reverse charge.

Question 5

Legal Fees is received by Sushrut, an advocate, from M/s. Tatva Trading Company having turnover of ₹ 50 lakh in preceding financial year Who is the person liable to pay tax in this case?

Answer 5

GST on legal services supplied by an advocate [Mr. Sushrut] to any business entity [M/s. Tatva Trading Company] located in the taxable territory is payable on reverse charge basis. Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., M/s. Tatva Trading Company.

Question 6

State the person liable to pay GST in the following independent cases provided recipient is located in the taxable territory:

- (a) **Services supplied by an insurance agent to an insurance company.**
- (b) **Services supplied by a recovery agent to a car dealer.**
- (c) **Security services (services provided by way of supply of security personnel) provided by a partnership firm to a registered person paying tax under regular scheme.**

Answer 6

- a) GST on services supplied by an insurance agent to any person carrying on insurance business located in the taxable territory is payable under reverse charge. Therefore, in the given case, GST is payable under reverse charge by the recipient – Insurance Company.
- b) GST on services supplied by a recovery agent to a banking company or a financial institution or a non-banking financial company located in the taxable territory is payable under reverse charge. However, since, in the given case, services are being supplied by a recovery agent to a car dealer, GST is payable under forward charge by the service provider - recovery agent.
- c) GST on security services (services provided by way of supply of security personnel) provided to a registered person, located in the taxable territory is payable under

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reverse charge. Therefore, in the given case, GST is payable under reverse charge by the recipient – registered person receiving the services.

Question 7

Sultan & Sons, a partnership firm, in Nagpur, Maharashtra is a wholesaler of a taxable product 'P' and product 'Q' exempt by way of a notification, in the State of Maharashtra. Its aggregate turnover in the preceding financial year is ₹ 130 lakh. The firm wishes to opt for composition scheme under sub-sections (1) & (2) of section 10. However, its accountant is of the view that a person engaged in making supply of exempt goods is not eligible for the said scheme. Discuss.

Note: Assume that Sultan & Sons is not engaged in manufacture of goods as notified under section 10(2)(e).

Answer 7

The view taken by the accountant of Sultan & Sons is not valid in law. A registered person with an aggregate turnover in a preceding financial year up to ₹ 1.5 crore is eligible for composition levy, under section 10(1) & 10(2), in Delhi. Further, such person must not be engaged in making any supply of goods or services which are not leviable to tax under this Act and must not be engaged in making any inter-State outward supplies of goods or services, for being eligible to pay tax under said scheme. In the given case, the aggregate turnover of Sultan & Sons does not exceed ₹ 1.5 crore. Further, it is engaged in making only intra-State supply of goods and Product P supplied by it is taxable and Product Q supplied by it is leviable to tax, though exempted by way of notification. Therefore, it is eligible for composition levy under section 10(1) & 10(2) in the current year.

Question 8

A person availing composition scheme, under sub-sections (1) & (2) of section 10, in Haryana during a financial year crosses the turnover of ₹ 1.5 crore in the month of December. Will he be allowed to pay tax under composition scheme for the remainder of the year, i.e. till 31st March? Please advise.

Answer 8

No. The option to pay tax under composition scheme lapses from the day on which the aggregate turnover of the person availing composition scheme for goods during the financial year exceeds the specified limit (₹ 1.5 crore). Once he crosses the threshold, he is required to file an intimation for withdrawal from the scheme in prescribed form within 7 days of the occurrence of such event. Every person who has furnished such an intimation, may electronically furnish at the common portal, a statement in prescribed form containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him on the date on which the option is withdrawn, within a period of 30 days from the date from which the option is withdrawn.

Question 9

Determine whether the suppliers in the following cases are eligible for composition levy, under section 10(1) & 10(2), provided their turnover in preceding year does not exceed ₹ 1.5 crore:

- (i) **Mohan Enterprises is engaged in trading of pan masala in Rajasthan and is registered in the same State.**
- (ii) **Sugam Manufacturers has registered offices in Punjab and Haryana and supplies goods in neighbouring States.**

Answer 9

- i. A supplier engaged in the manufacture of goods as notified under section 10(2)(e), during the preceding FY is not eligible for composition scheme under section 10(1) and 10(2). Ice cream and other edible ice, whether or not containing cocoa, Pan masala, Tobacco and manufactured tobacco

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substitutes and aerated waters are notified under this category. However, in the given case, since Mohan Enterprises is engaged in trading of pan masala and not manufacture and his turnover does not exceed ₹ 1.5 crore, he is eligible for composition scheme subject to fulfilment of specified conditions.

- ii. Since supplier of inter-State outward supplies of goods or services is not eligible for composition levy, Sugam Manufacturers is not eligible for composition levy.

Question 10

Subramanian Enterprises has two registered places of business in Delhi. Its aggregate turnover for the preceding year for both the places of business was ₹ 120 lakh. It wishes to pay tax under composition levy, under section 10(1) & 10(2), for one of the places of business in the current year while under normal levy for other. You are required to advise Subramanian Enterprises whether he can do so?

Answer 10

A registered person with an aggregate turnover in a preceding financial year up to ₹ 1.5 crore is eligible for composition levy, under section 10(1) & 10(2), in Delhi. Since the aggregate turnover of Subramanian Enterprises does not exceed ₹ 1.5 crore, it is eligible for composition levy in the current year. However, all registered persons having the same Permanent Account Number (PAN) have to opt for composition scheme. If one such registered person opts for normal scheme, others become ineligible for composition scheme. Thus, Subramanian Enterprises either have to opt for composition levy for both the places of business or under normal levy for both the places of business.

Question 11

Mr. Ajay has a registered repair centre where electronic goods are repaired/serviced. His repair centre is located in State of Rajasthan and he is not engaged in making any inter-State supply of services. His aggregate turnover in the preceding financial year (FY) is ₹ 45 lakh. With reference to the provisions of the CGST Act, 2017, examine whether Mr. Ajay can opt for the composition scheme under section 10(1) & 10(2) in the current financial year? Or whether he is eligible to avail benefit of composition scheme under section 10(2A)? Considering the option of payment of tax available to Mr. Ajay, compute the amount of tax payable by him assuming that his aggregate turnover in the current financial year is ₹ 35 lakh. Will your answer be different if Mr. Ajay procures few items required for providing repair services from neighbouring State of Madhya Pradesh?

Answer 11

Section 10(1) provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore (₹ 75 lakh in Special Category States except Assam, Himachal Pradesh and Jammu and Kashmir), may opt to pay, in lieu of the tax payable by him, an amount calculated at the specified rates. However, as per proviso to section 10(1), person who opts to pay tax under composition scheme may supply services other than restaurant services, of value not exceeding 10% of the turnover in a State or Union territory in the preceding financial year or ₹ 5 lakh, whichever is higher. In the given case, since Mr. Ajay is an exclusive supplier of services other than restaurant services [viz. repair services], he is not eligible for composition scheme under section 10(1) & 10(2). However, section 10(2A) provides an option to a registered person (subject to certain conditions) whose aggregate turnover in the preceding financial year is upto ₹ 50 lakh and who is not eligible to pay tax under composition scheme under section 10(1) & 10(2), to pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] of the turnover of supplies of goods and services in the State

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or Union territory. Thus, in view of the above-mentioned provisions, Mr. Ajay is eligible to avail the composition scheme under section 10(2A) as his aggregate turnover in the preceding FY does not exceed ₹ 50 lakh and he is not eligible to opt for the composition scheme under section 10(1) & 10(2). Thus, the amount of tax payable by him as per the composition scheme under section 10(2A) is ₹ 2,10,000 [6% of ₹ 35 lakh].

A registered person cannot opt for composition scheme under section 10(2A), if, inter alia, he is engaged in making any inter-State outward supplies. However, there is no restriction on inter-State procurement of goods. Hence, answer will remain the same even if Mr. Ajay procures few items from neighboring State of Madhya Pradesh.

Question 12

M/s United Electronics, a registered dealer, is supplying all types of electronic appliances in the State of Karnataka. Their aggregate turnover in the preceding financial year by way of supply of appliances was ₹ 120 lakh. The firm also expects to provide repair and maintenance service of such appliances from the current financial year. With reference to the provisions of the CGST Act, 2017, examine:

- (i) **Whether the firm can opt for the composition scheme, under section 10(1) and 10(2), for the current financial year, as the turnover may include supply of both goods and services?**
- (ii) **If yes, up to what amount, the services can be supplied?**

Answer 12

- i. The registered persons, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore, may opt to pay tax under composition levy, under section 10(1) and 10(2).
The scheme can be availed by an intra-State supplier of goods and supplier of restaurant service. However, the composition scheme permits supply of marginal services (other than restaurant services) for a specified value along with the supply of goods and restaurant service, as the case may be. Thus, M/s United Electronics can opt for composition scheme for the current financial year as its aggregate turnover is less than ₹ 1.5 crore in the preceding financial year and it is not engaged in inter-State outward supplies.
- ii. The registered person opting for composition scheme, under section 10(1) and 10(2), can also supply services (other than restaurant services) for a value up to 10% of the turnover in the preceding year or ₹ 5 lakh, whichever is higher, in the current financial year. Thus, M/s United Electronics can supply repair and maintenance services up to a value of ₹ 12 lakh [10% of ₹ 120 lakh or ₹ 5 lakh, whichever is higher] in the current financial year.

Question 13: illustration

Taxpayer 'Tolaram' is a manufacturer who has opted for composition levy for goods, having one unit – A1 in UP and another unit – A2 in MP. Total turnover of two units in last FY was ₹ 115 lakh (₹ 85 lakh + ₹ 30 lakh). Turnover of units A1 and A2 in the first quarter of current financial year is ₹ 5 lakh and ₹ 10 lakh respectively. Compute the amount payable under composition levy under section 10(1) & 10(2) of the CGST Act, 2017 by 'Tolaram'

Answer 13

Unit	Location	Turnover in previous FY	Turnover in 1st quarter of this FY	Total tax (@1%)
A1	U.P.	₹ 85 lakh	₹ 5 lakh	₹ 5,000
A2	M.P.	₹ 30 lakh	₹ 10 lakh	₹ 10,000
Total		₹ 115 lakh	₹ 15 lakh	₹ 15,000

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Question 14: illustration

Taxpayer 'Bholaram' is a trader (who has opted for composition levy for goods) of both taxable and exempted goods (goods exempted by way of a notification). It has one retail showroom – A1 in Punjab and another retail showroom – A2 in Rajasthan, both selling taxable as well as exempted goods. Total turnover (including taxable and exempted goods) of the two showrooms in last FY was ₹ 115 lakh (₹ 85 lakh + ₹ 30 lakh). Turnover of showrooms A1 and A2 in the first quarter of current financial year is ₹ 35 lakh [A1 - ₹ 15 lakh (₹ 5 lakh from sale of taxable goods and ₹ 10 lakh from sale of exempted goods) and A2 - ₹ 20 lakh (₹ 10 lakh from sale of taxable goods and ₹ 10 lakh from sale of exempted goods)]. Compute the amount payable under composition levy under section 10(1) & 10(2) of the CGST Act, 2017 by 'Bholaram'.

Answer 14

Retail showroom	Location	Turnover in previous FY	Turnover in 1st quarter of this FY	Total tax (@1%)
A1	Punjab	₹ 85 lakh	₹ 5 lakh	₹ 30,000
A2	Rajasthan	₹ 30 lakh	₹ 10 lakh	₹ 60,000
Total		₹ 115 lakh	₹ 15 lakh	₹ 90,000

Note: A supplier, other than manufacturer and restaurant service provider, eligible for composition levy under section 10(1) & 10(2) has to pay tax @ 1% (CGST+ SGST) of the turnover of only taxable supplies of goods and services in the State. Rates of tax in case of composition levy for services A registered person opting for composition levy for services shall pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] of the turnover of supplies of goods and services in the State or Union territory.

Question 15: illustration

Taxpayer 'Padmavati' is a salon stylist, who has opted for composition levy for services, having one branch – B1 in Vasant Kunj, Delhi and another branch – B2 in Gurgaon, Haryana. Total turnover of two branches in last FY was ₹ 45 lakh (₹ 25 lakh + ₹ 20 lakh). Turnover of branches B1 and B2 in the first quarter of current financial year is ₹ 5 lakh and ₹ 10 lakh respectively. Compute the amount payable under composition levy under section 10(2A) of the CGST Act, 2017 by 'Padmavati'.

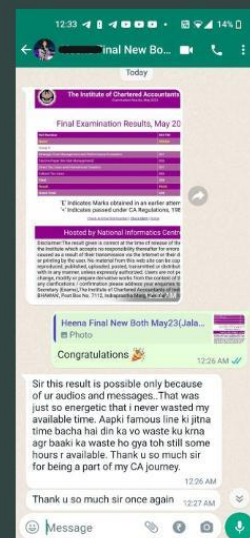
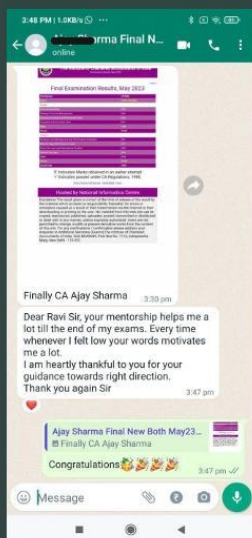
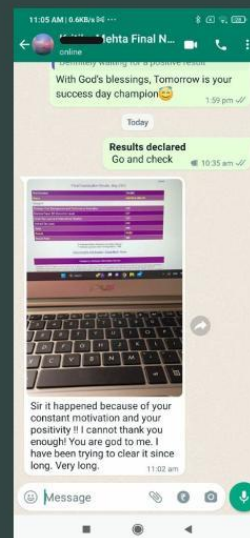
Answer 15

Branch	Location	Turnover in previous FY	Turnover in 1st quarter of this FY	Total tax (@6%)
Delhi	Delhi	₹ 25 lakh	₹ 5 lakh	₹ 30,000
B2	Haryana	₹ 20 lakh	₹ 10 lakh	₹ 60,000
Total		₹ 45 lakh	₹ 15 lakh	₹ 90,000

As seen above, since the tax under composition scheme has to be computed as a specified % of the turnover in State or turnover in Union territory, it is pertinent to understand what is turnover in State or turnover in Union territory.

Paper 3 - Taxation

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Chapter 4 PLACE OF SUPPLY

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 20	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q3,Q 4	Q2								Q5
RTP					Q1							
Q & A												
MTP	Q10	Q9		Q11	Q6		Q8, Q12			Q7, Q13	Q19	
PYP	Q20,Q 21					Q1		Q17, Q18	Q2			
RTP		Q14	Q5	Q15	Q3		Q4	Q16				

Section – A MULTIPLE CHOICE QUESTIONS (MCQS)

1. **Lucky Singh, a resident of Noida, U.P., went to Himachal Pradesh for a family vacation via Delhi-Chandigarh-Himachal Pradesh in his own car. After entering Chandigarh, his car broke down due to some technical issue. He called 'ONROADS' - an emergency roadside car assistance company (registered under GST in Delhi) to repair the car. The car was repaired by the staff of 'ONROADS'. The value of supply amounted to ` 50,000 (being labour charges ` 40,000 and spares ` 10,000). The bill was supposed to be generated online though the server, but due to some technical issue, it was not so generated.**

Determine the place of supply in the given case.

- (a) Delhi
- (b) Chandigarh
- (c) Noida, U.P
- (d) Himachal Pradesh (RTP May '20)

Ans: (a)

2. **Aflatoon Spares (P) Ltd., located and registered in Haryana, supplied spare parts (FOB basis) to Mr. Laxmi Khurana, an unregistered person, located in Rajasthan. Mr. Laxmi Khurana booked the courier himself with Black Dart Courier (P) Ltd., registered in Delhi for delivery in Rajasthan. Black Dart Courier (P) Ltd. picked up the goods from Haryana and delivered the courier in Rajasthan while passing through the State of Uttar Pradesh.**

Determine the place of supply of service provided by Black Dart Courier (P) Ltd. to Mr. Laxmi Khurana:

- (a) Haryana
- (b) Delhi
- (c) Rajasthan

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(d) Uttar Pradesh (MTP 1 Mark Oct '19)

Ans: (a)

3. M/s. Buildwell Engineering Consultants, located and registered in Gurugram, Haryana provided consultancy services to M/s. Taj India Ltd., (located and registered in Mumbai, Maharashtra) for its hotel to be constructed on land situated in Dubai.

Determine the place of supply of consultancy services provided by M/s. Buildwell Engineering Consultants to M/s. Taj India Ltd.:

- (a) Gurugram, Haryana
- (b) Mumbai, Maharashtra
- (c) Dubai
- (d) None of the above (MTP 2 Marks March '19)

Ans: (b)

4. Mr. Salman Khan, a resident of Mumbai, has booked a Videocon D2H connection at his other home in Delhi. His friend Shah Rukh Khan, is resident of Kerala, paid the charges for Salman's D2H connection in Delhi at the time of actual installation. Mr. Shah Rukh Khan went to Kolkatta after making the payment. Both Salman Khan and Shah Rukh Khan are not registered in GST.

Determine the place of supply of D2H service provided by Videocon to Mr. Salman Khan:

- (a) Mumbai
- (b) Kerala
- (c) Delhi
- (d) Kolkatta (MTP 2 Marks April '19)

Ans: (c)

5. M/s Fair Engineering Consultants, located and registered under GST in Gurugram, Haryana, provided architectural services to Mahal India Ltd., located and registered under GST in Mumbai, Maharashtra, for its hotel to be constructed on land situated in Dubai. Determine the place of supply of architectural services provided by M/s Fair Engineering Consultants to Mahal India Ltd.:

- (a) Gurugram, Haryana
- (b) Mumbai, Maharashtra
- (c) Dubai
- (d) Either Maharashtra or Dubai, at the option of the recipient (MTP 1 Mark March 22)

Ans : (b)**Question & Answers****Question 1**

Determine the place of supply for the following independent cases:

- i. Festival Event, an event management company at Mumbai, organises two business promotion events for Prabhu Enterprises (registered in Ahmedabad, Gujarat) at New Delhi and in Malaysia.
- ii. Global Planners (Jodhpur, Rajasthan) is hired by Mr. John (unregistered person based in Kochi, Kerala) to plan and organize his son's wedding at Mumbai, Maharashtra. Will your answer be different if the wedding is to take place in Singapore? (PYP 5 Marks Nov 22)

Answer 1

- i. When service of organization of event is provided to a registered person, the place of supply is location of recipient, whether event is held in India or outside India.

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Thus, in the given case, place of supply of:

- event held at New Delhi is Ahmedabad, Gujarat, and
 - event held at Malaysia is Ahmedabad, Gujarat.
- ii. When service of organization of event is provided to an unregistered person, the place of supply is location where the event is held when event is held in India and place of supply is location of recipient where event is held outside India.

Thus, in the given case, place of supply:

- if wedding takes place at Maharashtra is Mumbai, Maharashtra, and
- if wedding takes place at Singapore is Kochi, Kerala

Question 2

Determine place of supply along with reasons in the following cases:

- (i) **Mr. X, an architect (Kolkata), provides interior decorator services to Mr. Y of New York (USA) in relation to his immovable property located in New Delhi.**
- (ii) **Mr. A (a Chartered Accountant registered in Kolkata) supplies services to his client in Bhubaneswar (registered in Bhubaneswar, Odisha).**
- (iii) **ABC Ltd. of Patna imported certain goods from XYZ Inc. of USA. The goods were imported through vessel and delivery of goods was taken at Kolkata, whereafter the movement terminates and the goods are stored.**
- (iv) **Mr. X, registered in Guwahati, has availed land-line services from BSNL. The telephone is installed in residential premises in Kolkata and the billing address is office of Mr. X in Guwahati.**
- (v) **Mr. X, residing in Chennai, is travelling with an Indian Airline aircraft and is provided with movie-on-demand service for ₹100 as on-board entertainment during Delhi-Chennai leg of a Bangkok-Delhi-Chennai flight.**
- (vi) **Mr. X of Kolkata purchased online tickets for Aquatica water park in Mumbai.**
- (vii) **Mr. Z, an unregistered person of Kolkata, sends a courier from New Delhi to his friend in Chennai, Tamil Nadu while he was on trip to New Delhi.**
- (viii) **Mr. X, a registered person in Ranchi, Jharkhand, buys shares from a broker in Patna on NSE, Mumbai. Determine the place of supply of brokerage service.**
- (ix) **XYZ Ltd., New Delhi entered into contract with an Indian airline for the supply of biscuit packets for further supply by airline to the passengers in Kolkata-Guwahati route. The biscuits were loaded on board in Lucknow. (PYP 9 Marks Jan 21)**

Answer 2

- (i) New Delhi. In a case where location of the supplier or location of recipient of service is outside India, the place of supply of services supplied directly in relation to an immovable property including that of interior decorators is the place where the immovable property is located.
- (ii) Bhubaneswar, Odisha. The place of supply of services, except the specified services made to a registered person, is the location of such person.
- (iii) Patna. The place of supply of goods imported into India is the location of the importer.
- (iv) Kolkata. The place of supply of services by way of fixed telecommunication line is the location where the telecommunication line is installed for receipt of services.
- (v) Bangkok. The place of supply of services on board an aircraft is the location of the first scheduled point of departure of that aircraft or flight for the journey
- (vi) Mumbai. The place of supply of services provided by way of admission to an amusement park is the place where the park is located.
- (vii) New Delhi. The place of supply of services by way of transportation of goods by courier to a person other than a registered person is the location at which such goods are handed over for their transportation.
- (viii) Ranchi, (Jharkhand). The place of supply of stock broking services to any person shall be the location of the recipient of services on the records of the supplier of

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services.²

- (ix) Where the supply involves movement of goods, the place of supply of such goods is the location of the goods at the time at which the movement of goods terminates for delivery to the recipient. Therefore, the place of supply of biscuit packets sold by XYZ Ltd. to Indian Airlines is Lucknow³.

Further, where the goods are supplied on board an aircraft, the place of supply shall be the location at which such goods are taken on board. Thus, the place of supply of biscuit packets sold by Indian Airlines to the passengers in Kolkata-Guwahati route is Lucknow.

Question 3

PQ, a statutory body, deals with the all the advertisement and publicity of the Government. It has issued a release order to 'Moon Plus' channel (registered in State 'A') for telecasting an advertisement relating to one of the schemes of the Government in the month of September 20XX. The advertisement will be telecasted in the States of 'A', 'B', 'C', 'D' and 'E'. The total value of the service contract entered into between 'Moon Plus' and 'PQ' is ₹ 10,00,000 (exclusive of GST).

You are required to determine the place of supply of the services in the instant case as also the value of supply attributable to the States of 'A', 'B', 'C', 'D' and 'E'.

Further, compute the GST liability [CGST & SGST or IGST, as the case may be] of 'Moon Plus' as also advise it as to whether it should issue one invoice for the entire contract value or separate State-wise invoices.

The other relevant information is given hereunder: (RTP May '20)

MAY, 2020 Table

States	Viewership figures of 'Moon Plus' channel in the last week of June 20XX as provided by the Broadcast Audience Research Council
A	50,000
B + C	1,00,000
D + E	50,000

Table 2

States	Population as per latest census (in crores)
A	50
B	180
C	20
D	100
E	25

The applicable rate of tax is as under:

CGST	SGST	IGST
9%	9%	18%

Answer 3

As per section 12(14) of the IGST Act, 2017, the place of supply of advertisement services to the Central Government, a State Government, a statutory body or a local authority meant for the States or Union territories identified in the contract or agreement is taken as being in each of such States or Union territories (where the advertisement is broadcasted/ run /played/disseminated).

Therefore, in the given case, the place of supply of advertisement service is in the States of 'A', 'B', 'C', 'D' and 'E'.

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The value of the supply of such advertisement services specific to each State/Union territory is in proportion to the amount attributable to the services provided by way of dissemination in the respective States/Union territories determined in terms of the contract or agreement entered into in this regard.

In the absence of such a contract or agreement between the supplier and recipient of services, the proportionate value of advertisement services attributable to different States/Union territories (where the advertisement is broadcasted/run/played/disseminated) is computed in accordance with rule 3 of the IGST Rules, 2017.

As per rule 3(f) of the IGST Rules, 2017, in the case of advertisement on television channels, the amount attributable to the value of advertisement service disseminated in a State shall be calculated on the basis of the viewership of such channel in such State, which in turn, shall be calculated in the following manner, namely: -

- (i) the channel viewership figures for that channel for a State or Union territory shall be taken from the figures published in this regard by the Broadcast Audience Research Council;
- (ii) the figures published for the last week of a given quarter shall be used for calculating viewership for the succeeding quarter;
- (iii) where such channel viewership figures relate to a region comprising of more than one State or Union territory, the viewership figures for a State or Union territory of that region, shall be calculated by applying the ratio of the populations of that State or Union territory, as determined in the latest Census, to such viewership figures;
- (iv) the ratio of the viewership figures for each State or Union territory as so calculated, when applied to the amount payable for that service, shall represent the portion of the value attributable to the dissemination in that State or Union territory.

Therefore, value of supply attributable to 'A', 'B', 'C', 'D' and 'E', will be computed as under:

States	Viewership figures of 'Moon Plus' channel as provided by the Broadcast Audience Research Council in the last week of June 20XX	Viewership ratio of 'Moon Plus' channel in the States 'A', ('B' + 'C') and ('D' + 'E')	Proportionate value of advertisement services for States A', ('B' + 'C') and ('D' + 'E')
A	50,000	50,000: 1,00,000: 50,000 = 1:2:1	$\frac{10,00,000 \times 1}{4} =$ $\frac{2,50,000}{}$
B + C	1,00,000		$\frac{10,00,000 \times 2}{4} =$ $\frac{5,00,000}{}$
D + E	50,000		$\frac{10,00,000 \times 1}{4} =$ $\frac{2,50,000}{}$

States	Population as per latest census (in crores)	Population ratio in the States 'B' & 'C' and 'D' & 'E'	Proportionate value of advertisement services in the States 'A', 'B', 'C', 'D' & 'E'
A	50	B:C = 180:20 = 9:1	$\frac{2,50,000}{}$
B	180		$\frac{5,00,000 \times 9}{10} =$ $\frac{4,50,000}{}$
C	20	D:E = 100:25 = 4:1	$\frac{5,00,000 \times 1}{10} =$ $\frac{50,000}{}$
D	100		$\frac{2,50,000 \times 4}{5} =$ $\frac{2,00,000}{}$
E	25		$\frac{2,50,000 \times 1}{5} =$ $\frac{50,000}{}$

Since, there are five different places of supply in the given case, 'Moon Plus' channel will have to issue five separate invoices for each of the States namely, 'A', 'B', 'C', 'D' & 'E' indicating the value pertaining to that State. The GST liability of 'Moon Plus' channel will, therefore, be worked out as under:

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Computation of GST liability of 'Moon Plus'

States	Proportionate value of advertisement services (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
A	2,50,000	22,500	22,500	
B	4,50,000			81,000
C	50,000			9,000
D	2,00,000			36,000
E	50,000			9,000

Only in case of supply of services in State 'A', the location of supplier (State 'A') and the place of supply are in the same State, hence the same is an intra-State supply in terms of section 8(1) of the IGST Act, 2017 and is thus, liable to CGST and SGST. In all the remaining cases of supply of services, the location of the supplier (State 'A') and the places of supply (States 'B', 'C', 'D' & 'E') are in two different States, hence the same are inter-State supplies liable to IGST [Section 7(1)(a) of the IGST Act, 2017 read with section 5(1) of that Act].

Question 4

Determine the place of supply in the following independent cases:-

- (i) **Mr. Sahukaar (New Delhi) boards the New Delhi-Kota train at New Delhi. Mr. Sahukaar sells the goods taken on board by him (at New Delhi), in the train, at Jaipur during the journey.**
- (ii) **Vidhyut Pvt. Ltd. imports electric food processors from China for its Kitchen Store in Noida, Uttar Pradesh. Vidhyut Pvt. Ltd. is registered in Uttar Pradesh.**
- (iii) **Mr. Aatmaram, a manager in a Bank, is transferred from Bareilly, Uttar Pradesh to Bhopal, Madhya Pradesh. Mr. Aatmaram's family is stationed in Kanpur, Uttar Pradesh. He hires Gokul Carriers of Lucknow, Uttar Pradesh (registered in Uttar Pradesh), to transport his household goods from Kanpur to Bhopal.**
- (iv) **Bholunath, a resident of New Delhi, opens his saving account in New Delhi branch of Best Bank after undergoing the KYC process. He goes to Amritsar for some official work and withdraws money from Best Bank's ATM in Amritsar thereby crossing his limit of free ATM withdrawals.**

(RTP May '21, May'22)

Answer 4

- (i) Section 10(1)(e) of the IGST Act, 2017 lays down that place of supply of goods supplied on board a conveyance like aircraft, train, vessel, or a motor vehicle, is the location where such goods have been taken on board. Thus, in the given case, the place of supply of the goods sold by Mr. Sahukaar is the location at which the goods are taken on board, i.e. New Delhi and not Jaipur where they have been sold.
- (ii) As per section 11(a) of the IGST Act 2017, if the goods have been imported in India, the place of supply of goods is the place where the importer is located. Thus, in the present case, the place of supply of the goods imported by Vidhyut Pvt. Ltd. is Noida, Uttar Pradesh.
- (iii) As per section 12(8) of the IGST Act, 2017, the place of supply of services by way of transportation of goods, including by mail or courier provided to an unregistered person, is the location at which such goods are handed over for their transportation.
Since in the given case, the recipient – Aatmaram – is an unregistered person, the place of supply is the location where goods are handed to Gokul Carriers over for their transportation, i.e. Kanpur.
- (iv) As per section 12(12) of the IGST Act, 2017, the place of supply of banking and

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other financial services, including stock broking services to any person is the location of the recipient of services in the records of the supplier of services. Thus, in the given case, the place of supply is the location of the recipient of services in the records of the supplier bank, i.e. New Delhi.

Question 5

Musicera Pvt. Ltd., owned by Nitish Daani - a famous classical singer - wishes to organise a 'Nitish Daani Music Concert' in Gurugram (Haryana). Musicera Pvt. Ltd. (registered in Ludhiana, Punjab) enters into a contract with an event management company, Supriya (P) Ltd. (registered in Delhi) for organising the said music concert at an agreed consideration of ` 10,00,000. Supriya (P) Ltd. books the lawns of Hotel Dumdum, Gurugram (registered in Haryana) for holding the music concert, for a lump sum consideration of ` 4,00,000. Musicera Pvt. Ltd. fixes the entry fee to the music concert at ` 5,000. 400 tickets for 'Nitish Daani Music Concert' are sold.

You are required to determine the CGST and SGST or IGST liability, as the case may be, in respect of the supplie(s) involved in the given scenario.

Will your answer be different if the price per ticket is fixed at ` 450?

Note: Rate of CGST and SGST is 9% each and IGST is 18%. All the amounts given above are exclusive of taxes, wherever applicable. (RTP May '19)

Answer 5

In the given situation, three supplies are involved:

- (i) Services provided by Musicera Pvt. Ltd. to audiences by way of admission to music concert.
- (ii) Services provided by Supriya (P) Ltd. to Musicera Pvt. Ltd. by way of organising the music concert.
- (iii) Services provided by Hotel Dumdum to Supriya (P) Ltd. by way of accommodation in the Hotel lawns for organising the music concert.

The CGST and SGST or IGST liability in respect of each of the above supplies is determined as under:

- (i) As per the provisions of section 12(6) of the IGST Act, 2017, the place of supply of services provided by way of admission to, *inter alia*, a cultural event shall be the place where the event is actually held.

Therefore, the place of supply of services supplied by Musicera Pvt. Ltd. to audiences by way of admission to the music concert is the location of the Hotel Dumdum, i.e. Gurugram, Haryana.

Since the location of the supplier (Ludhiana, Punjab) and the place of supply (Gurugram, Haryana) are in different States, IGST will be leviable. Therefore, IGST leviable will be computed as follows:

Consideration for supply (400 tickets @ ` 5,000 per ticket) = ` 20,00,000
 IGST @ 18% on value of supply = ` 20,00,000 x 18% = ` 3,60,000.

- (ii) Section 12(7)(a)(i) of IGST Act, 2017 stipulates that the place of supply of services provided by way of organization of, *inter alia*, a cultural event to a registered person is the location of such person.

Therefore, the place of supply of services supplied by Supriya (P) Ltd. to Musicera Pvt. Ltd. (Ludhiana, Punjab) by way of organising the music concert is the location of the recipient, i.e. Ludhiana (Punjab).

Since the location of the supplier (Delhi) and the place of supply (Ludhiana, Punjab) are in different States, IGST will be leviable. Therefore, IGST leviable will be computed as follows:

Consideration for supply = ` 10,00,000

IGST @ 18% on value of supply = ` 10,00,000 x 18% = ` 1,80,000

- (iii) As per the provisions of section 12(3)(c) of the IGST Act, 2017, the place of supply of services, by way of accommodation in any immovable property for organizing,

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inter alia, any cultural function shall be the location at which the immovable property is located.

Therefore, the place of supply of services supplied by Hotel Dumdum (Gurugram, Haryana) to Supriya (P) Ltd. by way of accommodation in Hotel lawns for organising the music concert shall be the location of the Hotel Dumdum, i.e. Gurugram, Haryana.

Since the location of the supplier (Gurugram, Haryana) and the place of supply (Gurugram, Haryana) are in the same State, CGST and SGST will be leviable.

Therefore, CGST and SGST leviable will be computed as follows:

Consideration for supply = ₹ 4,00,000

CGST @ 9% on value of supply = ₹ 4,00,000 x 9% = ₹ 36,000
SGST @ 9% on value of supply = ₹ 4,00,000 x 9% = ₹ 36,000

If the price for the entry ticket is fixed at ₹ 450, answer will change in respect of supply of service provided by way of admission to music concert, as mentioned in point (i) above. There will be no IGST liability if the consideration for the ticket is ₹ 450 as the inter-State services by way of right to admission to, *inter alia*, musical performance are exempt from IGST vide Notification No. 9/2017 IT (R) dated 28.06.2017, if the consideration for right to admission to the event is not more than ₹ 500 per person. However, there will be no change in the answer in respect of supplies mentioned in point (ii) and (iii) above.

Question 6

Raman Row, a registered supplier under GST in Mumbai, Maharashtra is directed by Nero Enterprises, Kolkata, West Bengal to deliver goods valued at ₹ 12,00,000 to Fabricana of Aurangabad in Maharashtra. Raman Row makes out an invoice at 9% tax rate under CGST and SGST respectively (scheduled rate) and delivers it locally in Maharashtra.

Discuss and comment on the above levy of tax and determine the tax liability of goods in the above circumstances. (MTP 5 Marks Oct '20)

Answer 6

The supply between Raman Row (Mumbai, Maharashtra) and Nero Enterprises (Kolkata, West Bengal) is a bill to ship to supply where the goods are delivered by the supplier [Raman Row] to a recipient [Fabricana (Aurangabad, Maharashtra)] or any other person on the direction of a third person [Nero Enterprises]. In such a case, it is deemed that the said third person has received the goods and the place of supply of such goods is the principal place of business of such person [Section 10(1)(b) of IGST Act, 2017].

Accordingly, the place of supply between Raman Row (Mumbai, Maharashtra) and Nero Enterprises (Kolkata, West Bengal) will be Kolkata and thus, it will be an inter-State supply liable to IGST. Hence, Raman Row should charge 18% IGST on ₹ 12,00,000, which comes out to ₹ 2,16,000.

This situation involves another supply between Nero Enterprises (Kolkata, West Bengal) and Fabricana (Aurangabad, Maharashtra). The place of supply in this case will be the location of the goods at the time when the movement of goods terminates for delivery to the recipient i.e., Aurangabad, Maharashtra in terms of section 10(1)(a) of IGST Act, 2017. Thus, being an inter-State supply, the same will also be chargeable to IGST.

Question 7

Mr. Rajat Chawla, an interior decorator provides professional services to Mr. Aman Malhotra in relation to two of his immovable properties. Determine the place of supply in the transactions below as per provisions of GST law in the following independent situations:

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Paper 3 - Taxation

Case	Location of Mr. Rajat Chawla	Location of Mr. Aman Malhotra	Property situated at
I	Delhi	Maharashtra	New York (USA)
II	Delhi	New York	Pihus (France)

Explain the relevant provisions of law to support your conclusions. (MTP 4 Marks April 22)

Answer 7

Case I

As per section 12(3) of the IGST Act, 2017, where both the service provider and the service recipient are located in India, the place of supply of services directly in relation to an immovable property, including services provided by interior decorators is the location of the immovable property. However, if the immovable property is located outside India, the place of supply is the location of the recipient. Since in the given case, both the service provider (Mr. Rajat Chawla) and the service recipient (Mr. Aman Malhotra) are located in India and the immovable property is located outside India (New York), the place of supply will be the location of recipient, i.e. Maharashtra.

Case II

As per section 13(4) of the IGST Act, 2017, where either the service provider or the service recipient is located outside India, the place of supply of services directly in relation to an immovable property including services of interior decorators is the location of the immovable property. Since in the given case, service provider (Mr. Rajat Chawla) is located in India and service recipient (Mr. Aman Malhotra) is located outside India (New York), the place of supply will be the location of immovable property, i.e. Pihus (France).

Question 8

Mr. Sheru, an unregistered person and a resident of Pune, Maharashtra hires the services of Class Ltd. an event management company registered in Delhi, for organising the new product launch in Bengaluru, Karnataka.

- (i) **Determine the place of supply of services provided by Class Ltd.**
- (ii) **What would be your answer if the product launch takes place in Bangkok?**
- (iii) **What would be your answer if Mr. Sheru is a registered person and product launch takes place in-**
 - (a) **Bengaluru**
 - (b) **Bangkok? (MTP 5 Marks March '21)**

Answer 8

- (i) As per section 12(7)(a)(ii) of the IGST Act, 2017 when service by way of organization of an event is provided to an unregistered person, the place of supply is the location where the event is actually held and if the event is held outside India, the place of supply is the location of recipient. Since, in the given case, the service recipient [Mr. Sheru] is unregistered and event is held in India, place of supply is the location where the event is actually held, i.e. Bengaluru, Karnataka. The location of the supplier and the location of the recipient is irrelevant in this case.
- (ii) However, if product launch takes place outside India [Bangkok], the place of supply will be the location of recipient, i.e. Pune, Maharashtra.
- (iii) When service by way of organization of an event is provided to a registered person, place of supply is the location of recipient vide section 12(7)(a)(i) of the IGST Act, 2017.

Therefore, if Mr. Sheru is a registered person, then in both the cases, i.e. either when product launch takes place in Bengaluru or Bangkok, the place of supply will be the location of recipient, i.e. Pune, Maharashtra.

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Paper 3 - Taxation

Question 9

Determine the place of supply for the following independent cases under the IGST Act, 2017:

- (i) **Mega Events, an event management company at Kolkata, organises two award functions for Shagun Jewellers of Chennai (Registered in Chennai) at New Delhi and at Singapore.**
- (ii) **Crown Planners (Bengaluru) is hired by Dr. Banta (unregistered person based in Kochi) to plan and organise his son's wedding at Mumbai.**

Will your answer be different if the wedding is to take place at Malaysia? (MTP 5 Marks Aug '18)

Answer 9

- (i) When service by way of organization of an event is provided to a registered person, place of supply is the location of recipient in terms of section 12(7)(a)(i) of IGST Act, 2017. Since, in the given case, the award functions at New Delhi and Singapore are organized for Shagun Jewellers (registered in Chennai), place of supply in both the cases is the location of Shagun Jewellers i.e., Chennai.
- (ii) As per section 12(7)(a)(ii) of IGST Act, 2017, when service by way of organization of an event is provided to an unregistered person, the place of supply is the location where the event is actually held and if the event is held outside India, the place of supply is the location of recipient. Since, in the given case, the service recipient [Dr. Banta] is unregistered and event is held in India, place of supply is the location where the event is actually held i.e., Mumbai.

However, if the wedding is to take place outside India [Malaysia], the place of supply is the location of recipient, i.e. Kochi.

Question 10

Answer the following questions in the light of the place of supply provisions contained in the IGST Act, 2017:

- (1) **Quick deal Enterprises (Ahmednagar, Gujarat) opens a new branch office at Hissar, Haryana. It purchases a building for office from Ruhani Builders (Hissar) along with pre-installed office furniture and fixtures. Determine place of supply of the pre-installed office furniture and fixtures. (MTP 2 Marks April '18)**
- (2) **Supra Events, an event management company at New Delhi, organizes an award function for Chirag Diamond Merchants of Varanasi (registered in U.P.), at Mumbai. Determine place of supply of the service supplied by Supra Events. Will your answer be different, if the award function is organized at Mauritius instead of Mumbai? (MTP 3 Marks April '18)**

Answer 10

- (1) Section 10(1)(c) of the IGST Act stipulates that if the supply does not involve movement of goods, the place of supply is the location of goods at the time of delivery to the recipient. Since there is no movement of office furniture and fixtures in the given case, the place of supply of such goods is their location at the time of delivery to the recipient (Quick deal Enterprises) i.e., Hissar, Haryana.
- (2) Section 12(7) of the IGST Act stipulates that the place of supply of services provided by way of organisation of a cultural, artistic, sporting, scientific, educational or entertainment event including supply of services in relation to a conference, fair, exhibition, celebration or similar events is the location of recipient in a case where such service is provided to a registered person. In the given case, since the recipient (Chirag Diamond Merchants) is a registered person, the place of supply is the location of the recipient, i.e., Varanasi, U.P.

Further, the place of supply will not change even if the award function is organised at Mauritius instead of Mumbai as the location of recipient remains unchanged. Thus, in that case also, the place of supply is the location of the recipient, i.e., Varanasi, U.P.

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Paper 3 - Taxation

Question 11

The place of supply in relation to immovable property is the location of immovable property. Suppose a road is constructed from Delhi to Mumbai covering multiple states. What will be the place of supply of construction services? (MTP 5 Marks Oct '19)

Answer 11

Where the immovable property is located in more than one State, the supply of service is treated as made in each of the States in proportion to the value for services separately collected or determined, in terms of the contract or agreement entered into in this regard or, in the absence of such contract or agreement, on such other reasonable basis as may be prescribed in this behalf [Explanation to section 12(3) for domestic supplies].

In the absence of a contract or agreement between the supplier and recipient of services in this regard, the proportionate value of services supplied in different States/Union territories (where the immovable property is located) is computed on the basis of the area of the immovable property lying in each State/ Union territories [Rule 4 of the IGST Rules].

Question 12

Asha Enterprises, supplier of sewing machines, is located in Kota (Rajasthan) and registered for purpose of GST in the said State. It receives an order from Deep Traders, located in Jalandhar (Punjab) and registered for the purpose of GST in the said State. The order is for the supply of 100 sewing machines with an instruction to ship the sewing machines to Jyoti Sons, located in Patiala (Punjab) and registered in the said State for purpose of GST. Jyoti Sons is a customer of Deep Traders. Sewing machines are being shipped in a lorry by Asha Enterprises.

Briefly explain the following:

- the place of supply;**
- the nature of supply:- whether inter-State or intra-State and**
- whether CGST/SGST or IGST would be applicable in this case. (MTP 5 Marks Nov 21, 4 Marks Mar'22)**

Answer 12

The supply between Asha Enterprises (Kota, Rajasthan) and Deep Traders (Jalandhar, Punjab) is a bill to ship to supply where the goods are delivered by the supplier [Asha Enterprises] to a recipient [Jyoti Sons (Patiala, Punjab)] on the direction of a third person [Deep Traders].

In case of such supply, it is deemed that the said third person has received the goods and the place of supply of such goods is the principal place of business of such person [Section 10(1)(b)

of the IGST Act, 2017]. Thus, the place of supply between Asha Enterprises (Rajasthan) and Deep Traders (Punjab) will be Jalandhar, Punjab.

Since the location of supplier and the place of supply are in two different States, the supply is an inter-State supply in terms of section 7, liable to IGST.

This situation involves another supply between Deep Traders (Jalandhar, Punjab) and Jyoti Sons (Patiala, Punjab). In this case, since the supply involves movement of goods, place of supply will be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient, i.e. Patiala, Punjab [Section 10(1)(a) of the IGST Act, 2017].

Since the location of supplier and the place of supply are in the same State, the supply is an intra-State supply in terms of section 8, liable to CGST and SGST.

Question 13

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Paper 3 - Taxation

Dhun Pvt. Ltd. owned by Jairaj - a famous classical singer - wishes to organise a 'Jairaj Music Concert' in Gurugram (Haryana). Dhun Pvt. Ltd. (registered in Ludhiana, Punjab) enters into a contract with an event management company, Dhanraj (P) Ltd. (registered in Delhi) for organising the said music concert at an agreed consideration of ` 10,00,000.

Dhanraj (P) Ltd. books the lawns of Hotel Dumdum, Gurugram (registered in Haryana) for holding the music concert, for a lump sum consideration of ` 4,00,000. Dhun Pvt. Ltd. fixes the entry fee to the music concert at ` 5,000. You are required to determine the place of supply in respect of the supply(ies) involved in the given scenario. (MTP 5 Marks Sep 22)

Answer 13

In the given situation, three supplies are involved:

- (i) Services provided by Dhun Pvt. Ltd. to audiences by way of admission to music concert.
- (ii) Services provided by Dhanraj (P) Ltd. to Dhun Pvt. Ltd. by way of organising the music concert.
- (iii) Services provided by Hotel Dumdum to Dhanraj (P) Ltd. by way of accommodation in the Hotel lawns for organising the music concert.

The place of supply in respect of each of the above supplies is determined as under:

- (i) As per the provisions of section 12(6), the place of supply of services provided by way of admission to, *inter alia*, a cultural event shall be the place where the event is actually held.

Therefore, the place of supply of services supplied by Dhun Pvt. Ltd. (Ludhiana, Punjab) to audiences by way of admission to the music concert is the location of the Hotel Dumdum, i.e. Gurugram, Haryana.

- (ii) Section 12(7)(a)(i) stipulates that the place of supply of services provided by way of organization of, *inter alia*, a cultural event to a registered person is the location of such person.

Therefore, the place of supply of services supplied by Dhanraj (P) Ltd. (Delhi) to Dhun Pvt. Ltd. (Ludhiana, Punjab) by way of organising the music concert is the location of the registered person, i.e. Ludhiana (Punjab).

- (iii) As per the provisions of section 12(3)(c) of the IGST Act, 2017, the place of supply of services, by way of accommodation in any immovable property for organizing, *inter alia*, any cultural function shall be the location at which the immovable property is located.

Therefore, the place of supply of services supplied by Hotel Dumdum(Gurugram, Haryana) to Dhanraj (P) Ltd. (Delhi) by way of accommodation in Hotel lawns for organising the music concert shall be the location of the Hotel Dumdum, i.e. Gurugram, Haryana.

Question 14

- (i) **Parth of Pune, Maharashtra enters into an agreement to sell goods to Bakul of Bareilly, Uttar Pradesh. While the goods were being packed in Pune godown of Parth, Bakul got an order from Shreyas of Shimoga, Karnataka for the said goods. Bakul agreed to supply the said goods to Shreyas and asked Parth to deliver the goods to Shreyas at Shimoga. You are required to determine the place of supply(ies) in the above situation.**

- (ii) **Damani Industries has recruited Super Events Pvt. Ltd., an event management company of Gujarat, for organising the grand party for the launch of its new product at Bangalore. Damani Industries is registered in Mumbai. Determine the place of supply of the services provided by Super Events Pvt. Ltd. to Damani Industries. Will your answer be different if the product launch party is organised at Dubai? (RTP Nov '18)**

Answer 14

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Paper 3 - Taxation

- (i) The supply between Parth (Pune) and Bakul (Bareilly) is a **bill to ship to supply** where the goods are delivered by the supplier [Parth] to a recipient [Shreyas (Shimoga)] or any other person on the direction of a third person [Bakul]. The place of supply in case of bill to ship to supply of goods is determined in terms of section 10(1)(b) of IGST Act, 2017.

As per section 10(1)(b) of IGST Act, 2017, where the goods are delivered by the supplier to a recipient or any other person on the direction of a third person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to the goods or otherwise, it shall be deemed that the said third person has received the goods and the place of supply of such goods shall be the principal place of business of such person.

Thus, in the given case, it is deemed that the Bakul has received the goods and the place of supply of such goods is the principal place of business of Bakul. Accordingly, the place of supply between Parth (Pune) and Bakul (Bareilly) will be Bareilly, Uttar Pradesh.

This situation involves another supply between Bakul (Bareilly) and Shreyas (Shimoga). The place of supply in this case will be determined in terms of section 10(1)(a) of IGST Act, 2017.

Section 10(1)(a) of IGST Act, 2017 stipulates that where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

Thus, the place of supply in second case is the location of the goods at the time when the movement of goods terminates for delivery to the recipient (Shreyas) i.e., Shimoga, Karnataka.

- (ii) Section 12(7)(a)(i) of IGST Act, 2017 stipulates that when service by way of organization of an event is provided to a registered person, place of supply is the location of recipient.

Since, in the given case, the product launch party at Bangalore is organized for Damani Industries (registered in Mumbai), place of supply is the location of Damani Industries i.e., Mumbai.

In case the product launch party is organized at Dubai, the answer will remain the same, i.e. the place of supply is the location of Damani Industries – Mumbai.

Question 15

- (i) **Mr. Z, a supplier registered in Hyderabad (Telangana), procures goods from China and directly supplies the same to a customer in US. With reference to the provisions of GST law, examine whether the said activity of supply of goods by Mr. Z to customer in US is taxable under GST. If yes, determine the place of supply of the same.**
- (ii) **Priyank of Pune, Maharashtra enters into an agreement to sell goods to Bisht of Bareilly, Uttar Pradesh. While the goods were being packed in Pune godown of Priyank, Bisht got an order from Sahil of Shimoga, Karnataka for the said goods. Bisht agreed to supply the said goods to Sahil and asked Priyank to deliver the goods to Sahil at Shimoga.**

You are required to determine the place of supply(ies) in the above situation. (, RTP Nov '19)

Answer 15

- (i) Schedule III to the CGST Act specifies transactions/ activities which shall be neither treated as supply of goods nor supply of services. A new activity has been added in the said Schedule III vide the CGST (Amendment) Act, 2018 namely, supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India. Thus, it seeks to exclude from the tax net such transactions which involve movement of goods, caused by a

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registered person, from one non-taxable territory to another non-taxable territory. Therefore, in view of the above-mentioned provisions, the said activity is not a supply. Hence, it is not leviable to GST since "supply" is the taxable event for chargeability of GST. Therefore, since the transaction is not leviable to GST, the question of place of supply does not arise in the given case.

- (ii) The supply between Priyank (Pune) and Bisht (Bareilly) is a **bill to ship to supply** where the goods are delivered by the supplier [Priyank] to a recipient [Sahil (Shimoga)] or any other person on the direction of a third person [Bisht]. The place of supply in case of domestic bill to ship to supply of goods is determined in terms of section 10(1)(b) of IGST Act, 2017.

As per section 10(1)(b) of IGST Act, 2017, where the goods are delivered by the supplier to a recipient or any other person on the direction of a third person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to the goods or otherwise, it shall be deemed that the said third person has received the goods and the place of supply of such goods shall be the principal place of business of such person.

Thus, in the given case, it is deemed that the Bisht has received the goods and the place of supply of such goods is the principal place of business of Bisht. Accordingly, the place of supply between Priyank (Pune) and Bisht (Bareilly) will be Bareilly, Uttar Pradesh.

This situation involves another supply between Bisht (Bareilly) and Sahil (Shimoga). The place of supply in this case will be determined in terms of section 10(1)(a) of IGST Act, 2017.

Section 10(1)(a) of IGST Act, 2017 stipulates that where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

Thus, the place of supply in second case is the location of the goods at the time when the movement of goods terminates for delivery to the recipient (Sahil), i.e. Shimoga, Karnataka.

Question 16

Dobriyal Technocrats Ltd., registered in Gurgaon, Haryana, is engaged in manufacturing heavy steel machinery. It enters into an agreement with Mindsharp Associates, registered in Delhi, for imparting motivational training to the top management of Dobriyal Technocrats Ltd. in a 5-day residential motivational training programme at an agreed consideration of ` 20,00,000. Mindsharp Associates books the conference hall alongwith the rooms of Hotel Chumchum, Neemrana (registered in Rajasthan) for the training programme, for a lump sum consideration of ` 12,00,000. You are required to determine the place of supply in respect of the supply(ies) involved in the given scenario. (RTP Nov '21)

Answer 16

In the given situation, two supplies are involved:

- (i) Services provided by Mindsharp Associates to Dobriyal Technocrats Ltd. by way of providing motivational training to its top management.
- (ii) Services provided by Hotel Chumchum to Mindsharp Associates by way of accommodation in said hotel for organizing the training programme.

The place of supply in respect of each of the above supplies is determined as under:

- (i) As per the provisions of section 12(5)(a) of the IGST Act, 2017, the place of supply of services provided in relation to training and performance appraisal to a registered person, shall be the location of such person. Therefore, the place of supply of services supplied by Mindsharp Associates to the registered recipient -

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- Dobriyal Technocrats Ltd. by way of providing motivational training to its top management is the location of Dobriyal Technocrats Ltd., i.e. Gurgaon, Haryana.
- (ii) As per the provisions of section 12(3)(c) of the IGST Act, 2017, the place of supply of services, by way of accommodation in any immovable property for organizing, *inter alia*, any official/ business function including services provided in relation to such function at such property, shall be the location at which the immovable property is located. Therefore, the place of supply of services supplied by Hotel Chumchum to Mindsharp Associates by way of accommodation of conference hall alongwith the rooms of Hotel Chumchum for the training programme shall be the location of the Hotel Chumchum, i.e. Neemrana, Rajasthan.

Question 17

Pathan Vohra of Pune, Maharashtra enters into an agreement to sell goods to Sukumar Enterprises of Bareilly, Uttar Pradesh. While the goods were being packed in Pune godown of Pathan Vohra, Sukumar got an order from Sindhu Pvt. Ltd. of Shimoga, Karnataka for the said goods. Sukumar Enterprises agreed to supply the said goods to Sindhu Pvt. Ltd. and asked Pathan Vohra to deliver the goods to Sindhu Pvt. Ltd. at Shimoga.

You are required to determine the place of supply(ies) in the above situation. (RTP Nov 23)

Answer 17

The supply between Pathan Vohra (Pune) and Sukumar Enterprises (Bareilly) is a bill to ship to supply where the goods are delivered by the supplier [Pathan Vohra] to a recipient [Sindhu Pvt. Ltd. (Shimoga)] or any other person on the direction of a third person [Sukumar Enterprises]. The place of supply in case of domestic bill to ship to supply of goods is determined in terms of section 10(1)(b) of the IGST Act, 2017.

As per section 10(1)(b) of the IGST Act, 2017, where the goods are delivered by the supplier to a recipient or any other person on the direction of a third person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to the goods or otherwise, it shall be deemed that the said third person has received the goods and the place of supply of such goods shall be the principal place of business of such person.

Thus, in the given case, it is deemed that the Sukumar Enterprises has received the goods and the place of supply of such goods is the principal place of business of Sukumar Enterprises. Accordingly, the place of supply between Pathan Vohra (Pune) and Sukumar Enterprises (Bareilly) will be Bareilly, Uttar Pradesh.

This situation involves another supply between Sukumar Enterprises (Bareilly) and Sindhu Pvt. Ltd. (Shimoga). The place of supply in this case will be determined in terms of section 10(1)(a) of the IGST Act, 2017.

Section 10(1)(a) stipulates that where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

Thus, the place of supply in second case is the location of the goods at the time when the movement of goods terminates for delivery to the recipient (Sindhu Pvt. Ltd.), i.e. Shimoga, Karnataka.

Question 18

Determine the place of supply in respect of the following independent instances under the provisions of IGST Act, 2017:

- (i) **Miss Poorva, an interior design consultant, having office at Chennai (Tamil Nadu), provided professional services to Mr. Nihil who resides in Dubai, for his two immovable properties under single contract, one property is outside India at Singapore and another at Surat (Gujarat).**

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- (iii) Patna. The place of supply of goods imported into India is the location of the importer.
- (iv) Kolkata. The place of supply of services by way of fixed telecommunication line is the location where the telecommunication line is installed for receipt of services.
- (v) Bangkok. The place of supply of services on board an aircraft is the location of the first scheduled point of departure of that aircraft or flight for the journey
- (vi) Mumbai. The place of supply of services provided by way of admission to an amusement park is the place where the park is located.
- (vii) New Delhi. The place of supply of services by way of transportation of goods by courier to a person other than a registered person is the location at which such goods are handed over for their transportation.
- (viii) Ranchi, (Jharkhand). The place of supply of stock broking services to any person shall be the location of the recipient of services on the records of the supplier of services.²
- (ix) Where the supply involves movement of goods, the place of supply of such goods is the location of the goods at the time at which the movement of goods terminates for delivery to the recipient. Therefore, the place of supply of biscuit packets sold by XYZ Ltd. to Indian Airlines is Lucknow³.
Further, where the goods are supplied on board an aircraft, the place of supply shall be the location at which such goods are taken on board. Thus, the place of supply of biscuit packets sold by Indian Airlines to the passengers in Kolkata-Guwahati route is Lucknow.

Question 20

Mr. Rajat Chawla, an interior decorator provides professional services to Mr. Aman Malhotra in relation to two of his immovable properties. Determine the place of supply in the transactions below as per provisions of GST law in the following independent situations:

Case	Location of Mr. Rajat Chawla	Location of Mr. Aman Malhotra	Property situated at
I	Delhi	Maharashtra	New York (USA)
II	Delhi	New York	Pihus (France)

Explain the relevant provisions of law to support your conclusions. (PYP 5 Marks May '18)

Answer 20

Case I

As per section 12(3) of the IGST Act, 2017, where both the service provider and the service recipient are located in India, the place of supply of services directly in relation to an immovable property, including services provided by interior decorators is the location of the immovable property. However, if the immovable property is located outside India, the place of supply is the location of the recipient. Since in the given case, both the service provider (Mr. Rajat Chawla) and the service recipient (Mr. Aman Malhotra) are located in India and the immovable property is located outside India (New York), the place of supply will be the location of recipient, i.e. Maharashtra.

Case II

As per section 13(4) of the IGST Act, 2017, where either the service provider or the service recipient is located outside India, the place of supply of services directly in relation to an immovable property including services of interior decorators is the location of the immovable property. Since in the given case, service provider (Mr. Rajat Chawla) is located in India and service recipient (Mr. Aman Malhotra) is located

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outside India (New York), the place of supply will be the location of immovable property, i.e. Pihus (France).

Question 21

Mr. Sheru, an unregistered person and a resident of Pune, Maharashtra hires the services of Class Ltd. an event management company registered in Delhi, for organising the new product launch in Bengaluru, Karnataka.

- (iv) **Determine the place of supply of services provided by Class Ltd.**
- (v) **What would be your answer if the product launch takes place in Bangkok?**
- (vi) **What would be your answer if Mr. Sheru is a registered person and product launch takes place in-**
 - (a) **Bengaluru**
 - (b) **Bangkok? (PYP 5 Marks May '18)**

Answer 21

- (iv) As per section 12(7)(a)(ii) of the IGST Act, 2017 when service by way of organization of an event is provided to an unregistered person, the place of supply is the location where the event is actually held and if the event is held outside India, the place of supply is the location of recipient. Since, in the given case, the service recipient [Mr. Sheru] is unregistered and event is held in India, place of supply is the location where the event is actually held, i.e. Bengaluru, Karnataka. The location of the supplier and the location of the recipient is irrelevant in this case.
- (v) However, if product launch takes place outside India [Bangkok], the place of supply will be the location of recipient, i.e. Pune, Maharashtra.
- (vi) When service by way of organization of an event is provided to a registered person, place of supply is the location of recipient vide section 12(7)(a)(i) of the IGST Act, 2017.

Therefore, if Mr. Sheru is a registered person, then in both the cases, i.e. either when product launch takes place in Bengaluru or Bangkok, the place of supply will be the location of recipient, i.e. Pune, Maharashtra.

Section - B

Question 1

In case of a domestic supply, what is the place of supply where goods are removed?

Answer 1

As per section 10(1)(a), the place of supply of goods is the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

Question 2

What will be the place of supply if the goods are delivered by the supplier to another person on the direction of a third person?

Answer 2

As per section 10(1)(b), it would be deemed that the third person has received the goods and the place of supply of such goods will be the principal place of business of such person.

Question 3

What is the place of supply where the goods or services are supplied on board a conveyance, such as a vessel, an aircraft, a train or a motor vehicle?

Answer 3

As per section 10(1)(e), in respect of goods, the place of supply is the location at which

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such goods are taken on board.

However, in respect of services, the place of supply is the location of the first scheduled point of departure of that conveyance for the journey in terms of sections 12(10) and 13(11).

Question 4

The place of supply in relation to immovable property (situated in India) is the location of immovable property. Suppose a road is constructed from Delhi to Mumbai covering multiple states. What will be the place of supply of construction services?

Answer 4

Where the immovable property is located in more than one State, the supply of service is treated as made in each of the States in proportion to the value for services separately collected or determined, in terms of the contract or agreement entered into in this regard or, in the absence of such contract or agreement, on such other reasonable basis as may be prescribed in this behalf [Explanation to section 12(3)]. In the absence of a contract or agreement between the supplier and recipient of services in this regard, the proportionate value of services supplied in different States/Union territories (where the immovable property is located) is computed on the basis of the area of the immovable property lying in each State/ Union territories [Rule 4 of the IGST Rules].

Question 5

What would be the place of supply of services provided by an event management company for organizing a sporting event for a Sports Federation which is held in multiple States?

Answer 5

In case of an event, if the recipient of service is registered, the place of supply of services for organizing the event is the location of such person. However, if the recipient is not registered, the place of supply is the place where event is held. Since the event is being held in multiple states and a consolidated amount is charged for such services, the place of supply will be deemed to be in each State in proportion to the value for services determined in terms of the contract or agreement entered into in this regard [Explanation to section 12(7)].

In the absence of a contract or agreement between the supplier and recipient of services, the proportionate value of services made in each State (where the event is held) will be computed in accordance with rule 5 of the IGST Rules by the application of generally accepted accounting principles.

Question 6

What is the place of supply of services by way of transportation of goods, including by mail or courier when both the supplier and the recipient of the services are located in India?

Answer 6

If the recipient is registered, the location of such person is the place of supply. However, if the recipient is not registered, the place of supply is the place where the goods are handed over for transportation. Further, if the goods are transported outside India, the destination of such goods is the place of supply [Section 12(8)].

Question 7

What will be the place of supply of passenger transportation service, if a person travels from Mumbai to Delhi and back to Mumbai?

Answer 7

If the person is registered, the place of supply of passenger transportation service will

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be the location of recipient. If the person is not registered, the place of supply for the forward journey from Mumbai to Delhi will be Mumbai, the place where he embarks [Section 12(9)].

However, for the return journey, the place of supply will be Delhi as the return journey has to be treated as separate journey [Explanation to section 12(9)].

Question 8

What is the place of supply for mobile connection? Can it be the location of supplier?

Answer 8

The location of supplier of mobile services cannot be the place of supply as the mobile companies are providing services in multiple states and many of these services are inter-state. The consumption principle will be broken if the location of supplier is taken as place of supply and all the revenue may go to a few states where the suppliers are located.

The place of supply for mobile connection would depend on whether the connection is on postpaid or prepaid basis. In case of postpaid connections, the place of supply is the location of billing address of the recipient of services on the record of supplier of services.

In case of pre-paid connections, if the service is supplied:-

- (i) through a selling agent or a re-seller or a distributor of SIM card or re-charge voucher, the place of supply is the place address of the selling agent or re-seller or distributor as per the record of the supplier at the time of supply; or
- (ii) by any person to the final subscriber, the place of supply is the location where such prepayment is received or such vouchers are sold;
- (iii) in other cases, the place of supply is the address of the recipient as per the records of the supplier of services and where such address is not available, the place of supply shall be location of the supplier of services.

However, if the recharge is done through internet/e-payment, the location of recipient of service on record of the supplier will be taken as the place of supply [Section 12(11)].

Question 9

A person from Mumbai goes to Kullu-Manali and takes some services from ICICI Bank in Manali. What is the place of supply?

Answer 9

The place of supply in case of banking services to any person shall be the location of the recipient of services on the records of the supplier of services. However, if the location of recipient of services is not on the records of the supplier, the place of supply shall be the location of the supplier of services i.e. Kullu-Manali, Himachal Pradesh [Section 12(12)].

Question 10

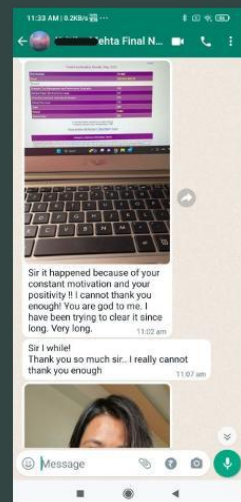
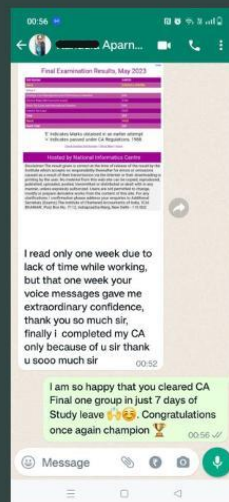
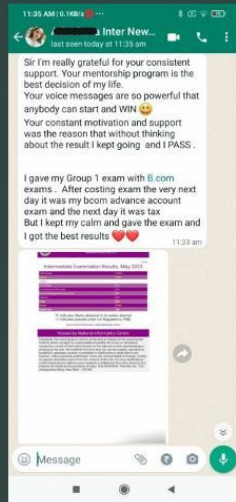
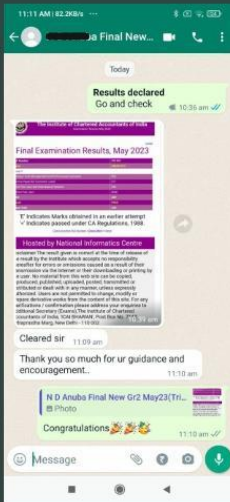
An unregistered person from Gurugram travels by Air India flight from Mumbai to Delhi and gets his travel insurance done in Mumbai. What is the place of supply of insurance services?

Answer 10

When insurance service is provided to an unregistered person, the location of the recipient of services on the records of the supplier of insurance services is the place of supply. So Gurugram is the place of supply [Section 12(13)].

Paper 3 - Taxation

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Paper 3 - Taxation

Chapter 5 Exemptions from GST

Attempt wise Distribution

Atte mpts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec '21	May '22	Nov '22	May' 23	Nov' 23
MCQ												
MTP		Q5	Q3,Q4, Q8,Q9	Q7			Q6					
RTP			Q2	Q1, Q10								
Q & A												
MTP	Q16, Q19	Q18	Q13,Q2 0,Q21		Q14, Q17		Q15			Q12, Q22, Q23	Q10, Q11, Q24	
PYP	Q34	Q4	Q30			Q31, Q32	Q1	Q3	Q33		Q2	
RTP		Q25, Q29		Q9, Q26	Q7, Q8				Q27		Q5, Q28	Q6

Section - A MULTIPLE CHOICE QUESTIONS (MCQS)

1. Which of the following service is not exempt under GST?

- (e) Loading and unloading of paddy
- (f) Loading and unloading of sugarcane
- (g) Loading and unloading of tea bags
- (h) Loading and unloading of potato. **(RTP Nov '19)**

Ans: (c)

2. Which of the following services is exempt from GST?

- (a) Bollywood dance performance by a film actor in a film and consideration charged is ₹ 1,45,000.
- (b) Carnatic music performance by a classical singer to promote a brand of readymade garments and consideration charged is ₹ 1,30,000.
- (c) Carnatic music performance by a classical singer in a music concert and consideration charged is ₹ 1,55,000.
- (d) Kathak dance performance by a classical dancer in a cultural programme and consideration charged is ₹ 1,45,000. **(RTP May '19)**

Ans: (d)

3. Services by way of admission to are exempt from GST.

- (a) Museum
- (b) National park
- (c) Tiger reserve
- (d) All of the above) **(MTP 1Marks, March'19)**

Ans : (d)

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4. Services by way of warehousing of.....is exempt from GST.

- (i) processed tea
- (ii) jaggery
- (iii) processed coffee
- (iv) rice

- a) (I) & (ii)
- b) (iii)
- c) (iv)
- d) all of the above **(MTP 1 Mark, April'19)**

Ans: (c)

5. Which of the following services are exempt under GST?

- (i) testing of agricultural produce
- (ii) supply of farm labour
- (iii) warehousing of agricultural produce

- (a) (i)
- (b) (i) and (ii)
- (c) (ii) and (iii)
- (d) (i), (ii) and (iii) **(MTP 2 Marks, Oct 20)**

Ans: (d)

6. An exempt supply includes-

- (i) Supply of goods or services or both which attracts Nil rate of tax
- (ii) Non-taxable supply
- (iii) Supply of goods or services or both which are wholly exempt from tax under section 11 of the CGST Act or under section 6 of IGST Act

- (a) (I)
- (b) (I) and (ii)
- (c) (ii) and (iii)
- (d) (I), (ii) and (iii) **(MTP 2 Marks, April'21, Oct'19, Sep'23)**

Ans: (d)

7. Which of the following services is exempt under health care services provided by clinical establishments?

- (a) Chemist shop in the hospital selling medicines to public at large
- (b) Food supplied from an outsourced canteen to in-patients as per diet prescribed by the hospital dietitian
- (c) Advertisement services provided by the hospital to a pharmaceutical company for their asthma pump by displaying it prominently in the hospital building
- (d) All of the above **(MTP 1 Mark, Oct'19)**

Ans: (b)

8. Which of the following services are exempt from GST?

- (a) Services by an artist by way of a performance in folk or classical art forms of painting/sculpture making etc. with consideration therefor not exceeding Rs. 1.5 lakh.
- (b) Services by an artist by way of a performance in modern art forms of music/dance/ theatre with consideration therefor not exceeding Rs. 1.5 lakh.
- (c) Services by an artist by way of a performance in folk or classical art forms of music/ dance/theatre with consideration therefor exceeding Rs. 1.5 lakh.
- (d) Services by an artist by way of a performance in folk or classical art forms of music/ dance / theatre with consideration therefor not exceeding Rs. 1.5 lakh.

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Paper 3 - Taxation**(MTP 1 Mark, April'19)****Ans: (c)****9. Transport of ----- by rail are exempt from GST:**

- (a) Milk
- (b) Salt
- (c) Defense equipment's
- (d) All of the above **(MTP 1Marks, March'19)**

Ans: (d)**10. Kala Niketan School is an educational institution providing pre-school education and education up to higher secondary school. Which of the following services are exempt if provided to Kala Niketan School?**

- (i) **Transportation of students, faculty and staff**
 - (ii) **Catering services**
 - (iii) **Cleaning services performed in such educational institution**
- (a) (i)
 - (b) (i) and (iii)
 - (c) (ii) and (iii)
 - (d) (i), (ii) and (iii) **(RTP Nov '19)**

Ans: (d)**Question & Answers****Question 1**

RXL Pvt. Ltd. manufactures a beauty soap with the brand name 'Forever Young'. RXL Pvt. Ltd. has organized a concert to promote its brand. Ms. Ahana Kapoor, its brand ambassador, who is a leading film actress, has given a classical dance performance in the said concert as a part of her services as a brand ambassador of the company. The proceeds of the concert worth ` 1,20,000 will be donated to a charitable organization by Ms. Ahana.

Examine whether Ms. Ahana Kapoor will be required to pay any GST for classical dance performance given in the said concert. (PYP 5 Marks July'21)

Answer 1

Services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre are exempt from GST, if the consideration charged for such performance is not more than ` 1,50,000. However, such exemption is not available in respect of service provided by such artist as a brand ambassador.

Since Ms. Ahana Kapoor is the brand ambassador of 'Forever Young' soap manufactured by RXL Pvt. Ltd., the services rendered by her by way of a classical dance performance in the concert organized by RXL Pvt. Ltd. to promote its brand will not be eligible for the above-mentioned exemption and thus, be liable to GST. The fact that the proceeds of the concert will be donated to a charitable organization will not have any bearing on the eligibility or otherwise to the above-mentioned exemption.

Question 2

Mr. Shyam Das was admitted to Suraksha Hospital in Mumbai for 2 days in relation to diagnosis of removal of stones from his kidney. For the said services, Surkasha hospital charged following from Mr. Das:

- (i) **Room rent ` 7,000 per day for 2 days.**
- (ii) **Operation theatre charges ` 5,000**
- (iii) **Doctors Consultation Charges ` 8,000**
- (iv) **Other services ` 4,000**

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In each of the above scenario explain whether Suraksha Hospital should levy GST or not in line with the relevant provisions of the GST laws. (PYP 4 Marks May '23)

Answer 2

Health care services by a clinical establishment are exempt from GST.

However, services provided by a clinical establishment by way of providing room having room charges exceeding ₹ 5,000 per day to a person receiving health care services are not exempt.

In view of the same, only the room rent of ₹ 14,000 (₹ 7,000 per day × 2 days) is liable to GST.

Other than room rent, all other nature of services provided by Suraksha Hospital are exempt from GST.

Question 3

AB Ltd., a registered company of Chennai, Tamil Nadu has provided following services for the month of October, 2023

Particulars	Amount (₹)
Services of transportation of students, faculty and staff from home to college and back to Commerce College, (a private college) providing degree courses in BBA, MBA, B.Com., M.Com.	2,50,000
Online monthly magazine containing question bank and latest updates in law to students of PQR Law College offering degree courses in LLB and LLM	1,00,000
Housekeeping services to T Coaching Institute	50,000
Security services to N Higher Secondary School	3,25,000
Services of providing breakfast, lunch and dinner to students of ABC Medical College offering degree courses recognized by law in medical field	5,80,000

All the above amounts are exclusive of GST.

Compute the taxable supplies of AB Ltd. for the month of October 2023 with necessary explanations. (PYP 6 Marks Dec '21)

Answer 3

Computation of value of taxable supplies of AB Ltd.

Particulars	Amount (₹)
Services of transportation of students, faculty and staff to Commerce College [Not exempt, since transportation services provided to an educational institution are exempt only if such institution provides pre-school education or education up to higher secondary school or equivalent.]	2,50,000
Online monthly magazine to students of PQR Law College [Services of supply of online educational journals provided to an educational institution providing qualification recognized by law are exempt.]	Nil
Housekeeping services to T Coaching Institute [Not exempt]	50,000
Security services to N Higher Secondary School [Security services provided to an educational institution providing education up to higher secondary school are exempt.]	Nil

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Services of providing breakfast, lunch and dinner to students of ABC Medical College [Not exempt, since catering services provided to an educational institution are exempt only if such institution provides pre-school education or education up to higher secondary school or equivalent.]	5,80,000
Value of taxable supplies	8,80,000

4It has been assumed that security services are performed in N Higher Secondary School.

Question 4

Decide with reason whether the following independent services are exempt under CGST Act, 2017:

- (i) **M/s Fast Trans, a goods transport agency, transported relief materials meant for victims of Kerala floods being a natural disaster, by road from Delhi to Ernakulum, for a Limited Co. (Old & New SM)**
- (ii) **Keyan Enterprises, an event organizer, provided services to Breathing Wall Ltd. by way of organizing business exhibition at Pragmatic Maiden in New Delhi as part of Make in India initiative. (PYP 3 Marks, Nov'18)**

Answer 4

- (i) Services provided by a goods transport agency, by way of transport in a goods carriage of, inter alia, relief materials meant for victims of inter alia natural or man-made disasters are exempt from GST. Therefore, services provided by M/s Fast Trans will be exempt from GST.
- (ii) Services provided by an organizer to any person in respect of a business exhibition held outside India is exempt from GST. Since in the given case, the exhibition is organized in India, the services of organization of event by Keyan Enterprises will not be exempt from GST.

Question 5

State the person liable to pay GST in the following independent services provided:

- (i) **Siddhi Builders, registered in Haryana, rented out 20 residential units owned by it in Sanskriti Society to Rudra Technologies, an IT based firm registered in the State of Haryana, for accommodation of its employees.**
- (ii) **M/s. Purohit Consultants, a partnership firm registered in Delhi as a regular tax payer, paid sponsorship fees of ` 70,000 at a seminar organized by a private NGO (a partnership firm) in Delhi. (RTP May '23)**

Answer 5

- (i) Services provided by way of renting of residential dwelling for use as residence is exempt from GST. However, where the residential dwelling is rented to a registered person, said exemption is not available. Further, tax on service provided by way of renting of residential dwelling to a registered person is payable by the recipient under reverse charge.
Therefore, in the given case, Rudra Technologies is liable to pay GST on the residential dwellings taken on rent by it from Siddhi Builders, under reverse charge mechanism.
- (ii) In case of services provided by any person by way of sponsorship to any body corporate or partnership firm, GST is liable to be paid under reverse charge by such body corporate or partnership firm located in the taxable territory.
Since in the given case, sponsorship services are being provided by the private NGO to a partnership firm – M/s. Purohit Consultants, GST is payable by Purohit Consultants on said services under reverse charge.

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Question 6

Examine the implications of GST on payment of honorarium to the Guest Anchors. (RTP Nov '23)

Answer 6

Circular No. 177/09/2022 GST dated 03.08.2022 clarifies the applicability of GST on honorarium paid to Guest Anchors. Sansad TV and other TV channels invite guest anchors to participate in their shows and pay remuneration to them in the form of honorarium.

It is clarified that supply of all goods & services are taxable unless exempt or declared as 'neither a supply of goods nor a supply of service'. Services provided by the guest anchors in lieu of honorarium attract GST liability.

However, guest anchors whose aggregate turnover in a financial year does not exceed ₹ 20 lakh (₹ 10 lakh in case of specified Special Category States) shall not be liable to take registration and pay GST.

Question 7

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

Note: Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively. All the amounts given above are exclusive of taxes. Compute the total GST liability of Mutiservices Private Ltd. for the month of April. (RTP Nov '20)

Answer 7

Computation of net GST liability of Mutiservices 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 Pure it 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:-

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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

State with reasons, whether GST is payable in the following independent cases:-

- (i) **Services provided to recognized sports body as curator of national team.**
- (ii) **Services provided by way of transportation of passenger in Metered Cab.**
- (iii) **Services by way of public conveniences such as provision of facilities of washrooms.**

Services provided by a player to a franchisee which is not a recognized sports body (RTP May '20)

Answer 8

- (i) Services provided to a recognized sports body by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST vide Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is payable in case of services provided to a recognized sports body as curator of national team.
- (ii) Service of transportation of passengers, with or without accompanied belongings, inter alia, by metered cabs are specifically exempt from GST vide Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is not payable in this case.
- (iii) Services by way of public conveniences such as provision of facilities of bathroom, washrooms, lavatories, urinal or toilets are not liable to GST as it is specifically exempt as per Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is not payable in this case.
- (iv) Services provided by a player to a franchisee which is not a recognized sports body is taxable as it is not exempt under Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is payable in this case.

Question 9

The temple of ancestral deity of Mr. Aman goel and his family is located at Beri, Haryana. The temple is run by a charitable organisation registered under section 12AA of the Income Tax Act, 1961. The family has got unshakeable faith in their ancestral deity. Mr. Aman is a big entrepreneur having flourishing business of tiles in Gurugram. Upon the birth of their first child, he donated ₹ 10 lakh to the said temple for construction of a sitting hall in the temple. On the main door of the sitting hall, a name plate was placed stating "Donated by Mr. Aman Goel upon birth of his first child".

You are required to examine the leviability of GST on the donation received from Mr. Aman Goel?. (RTP Nov '19)

Answer 9

It has been clarified vide Circular No. 116/35/2019 GST dated 11.10.2019 that when the name of the donor is displayed in the religious institution premises, by placing a name plate or similar such acknowledgement, which can be said to be an expression of

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gratitude and public recognition of donor's act of philanthropy and is not aimed at giving publicity to the donor in such manner that it would be an advertising or promotion of his business, then it can be said that there is no supply of service for a consideration (in the form of donation). There is no obligation (quid pro quo) on part of recipient of the donation or gift to do anything (supply a service). Therefore, there is no GST liability on such consideration.

In the given case, there is no reference or mention of any business activity of the donor which otherwise would have got advertised. Thus, since the gift or donation is made to a charitable organization, the payment has the character of gift or donation and the purpose is philanthropic (i.e., it leads to no commercial gain) and not advertisement, hence GST is not leviable.

Question 10

Services provided by an entity registered under section 12AB of the Income-tax Act, 1961 are exempt from GST if such services are provided by way of charitable activities. Elaborate the term 'charitable activities. (MTP 5 Marks & Oct '23)

Answer 10

The term 'charitable activities' mean activities relating to-

- (i) public health by way of-
 - (A) care or counseling of
 - (I) terminally ill persons or persons with severe physical or mental disability;
 - (II) persons afflicted with HIV or AIDS;
 - (III) persons addicted to a dependence-forming substance such as narcotics drugs or alcohol; or
 - (B) public awareness of preventive health, family planning or prevention of HIV infection;
- (ii) advancement of religion, spirituality or yoga;
- (iii) advancement of educational programmes/skill development relating to, -
 - (A) abandoned, orphaned or homeless children;
 - (B) physically or mentally abused and traumatized persons;
 - (C) prisoners; or
 - (D) persons over the age of 65 years residing in a rural area;
- (iv) preservation of environment including watershed, forests & wildlife.

Question 11

State with reasons, whether GST is payable in the following independent cases:-

- (i) **Food supplied by the canteen run by a hospital to the in-patients as advised by the doctors.**
- (ii) **An RWA in a housing society, registered under GST, collects the maintenance charges of ₹ 6,500 per month per member. (MTP 4 Marks March '23)**

Answer 11

- (i) Services by way of health care services by a clinical establishment, an authorized medical practitioner or para-medics are exempt from GST. Food supplied to the in-patients by a canteen run by the hospital, as advised by the doctor/nutritionists, is a part of composite supply of healthcare and not separately taxable. Thus, said services are exempt from GST.
- (ii) Supply of service by a RWA (unincorporated body or a non-profit entity registered under any law) to its own members by way of reimbursement of charges or share of contribution up to an amount of ₹ 7500 per month per member for providing services and goods for the common use of its members in a housing society/a residential complex are exempt from GST. Hence, in the given case, services provided by the RWA are exempt from GST since the maintenance charges collected per month per member do not exceed ₹ 7500.

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Question 12

State with reasons, whether GST is payable in the following independent cases:-

- (i) **Services provided to recognized sports body as selector of national team. (Sep'22)**
- (ii) **Services provided by way of transportation of passengers in metered cab, through an electronic commerce operator. (MTP 4 Marks Sep'22)**

Answer 12

- (i) Services provided to a recognized sports body by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST vide Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is payable in case of services provided to a recognized sports body as selector of national team.
- (ii) Service of transportation of passengers, with or without accompanied belongings, inter alia, by metered cabs are specifically exempt from GST vide Notification No. 12/2017 CT(R) dated 28.06.2017. However, where such services are supplied through an electronic commerce operator, said services are not exempt. Thus, GST is payable in the given case.

Question 13

Determine taxable value of supply under GST law with respect to each of the following independent services provided by the registered persons:

Particulars	Gross amount charged (Rs.)
Amount charged for loading, unloading, packing and warehousing of potato chips	25,000
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961	50,000
Amount charged by business correspondent for the services provided to the rural branch of a bank with respect to Savings Bank Accounts	1,00,000
Amount charged by cord blood bank for preservation of stem cells	5,00,000
Amount charged for service provided by commentator to a recognized sports body	6,00,000
Amount charged for service provided by way of right to admission to circus where consideration for the same is Rs. 750 per person.	12,000

(MTP 6 Marks, March'19)

Answer 13

Computation of value of taxable supply

Particulars	(Rs.)
Amount charged for loading, unloading, packing and warehousing of potato chips [Note-1]	25,000
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961 [Note-2]	Nil
Amount charged by business correspondent for the services provided to the rural branch of a bank with respect to Savings Bank Accounts [Note-3]	Nil
Amount charged by cord blood bank for preservation of stem cells [Note-4]	Nil 5,00,000

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Service provided by commentator to a recognized sports body [Note-5]	6,00,000
Amount charged for service provided by way of right to admission to circus where consideration for the same is Rs. 750 per person. [Note-6]	12,000

Notes:

- Services by way of loading, unloading, packing, storage or warehousing of agricultural produce are exempt from GST. Further, potato chips are manufactured through processes which alter the essential characteristic of agricultural produce, thus is not covered under definition of agricultural produce.
- Services by an entity registered under section 12AA of the Income-tax Act, 1961 by way of charitable activities are exempt from GST. The activities relating to advancement of yoga are included in the definition of charitable activities. So, such activities are exempt from GST.
- Services by business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch have been exempted from GST.
- ~~Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from GST.~~
As per amendment, notification dated 18.07.2022 Services provided by the cord blood banks by way of preservation of stem cells or any other service in relation to such preservation is removed from the exemption list and is now taxable.
- Services provided to a recognized sports body only by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST. Thus, services provided by commentators are liable to GST.
- Services provided by way of right to admission to circus where consideration for the same is upto Rs. 500 per person are exempt from GST. Since in the present case, the consideration is more than Rs. 500 per person, so the same is liable to GST.

Question 14

Explain the services provided by way of tolerating non-performance of a contract and its chargeability under the provisions of the CGST Act, 2017. (MTP 5 Marks, May'20)

Answer 14

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.

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Question 15

Kashi Enterprises, an event organizer, provided services to Brisk N Frisk Ltd. by way of organizing business exhibition in New Delhi as part of Make in India initiative. Kashi Enterprises claims that it is not required to pay GST as the services provided by way of organizing business exhibition are exempt from GST. Examine the technical veracity of the claim of Kashi Enterprises, in the given case. (MTP 4 Marks, April'21)

Answer 15

No, the claim made by Kashi Enterprises that it is not required to pay GST is not correct. Services provided by an organizer to any person in respect of a business exhibition are exempt from GST only when such business exhibition is held outside India. However, since in the given case, the exhibition is being organized in India, the services of organization of event by Kashi Enterprises will not be exempt from GST.

Question 16

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

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

*excluding GST

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

Note - All the services provided by Ayushman Medical Centre are intra-State supplies. Assume the rates of CGST, SGST and IGST to be 9%, 9% and 18% respectively. (MTP 6 Marks, March'18)

Answer 16

Health care services provided by, inter alia, a clinical establishment in India are exempt from GST vide Notification No. 12/2017 CT (R) dated 28.06.2017. The definition of 'health care services' stipulates that such services must be provided in any recognized system of medicines.

As per section 2(h) of Clinical Establishments Act, 2010, recognised system of medicine means allopathy, yoga, naturopathy, Ayurveda, homeopathy, siddha and umami system of medicines or any other system of medicines as may be recognised by the Central Government. Accordingly, value of supply and GST liability of Ayushman Medical Centre will be computed as follows:

S. No.	Particulars	₹
(I)	Reiki healing treatments [Not a recognized system of medicines]	10,00,000
(ii)	Plastic surgeries [₹ 20,00,000 - ₹ 1,00,000] ['Health care services' specifically excludes, inter alia, cosmetic or plastic surgery except when undertaken to	19,00,000

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	restore/reconstruct anatomy/functions of body affected due to congenital defects, developmental abnormalities, injury or trauma]	
(iii)	Air ambulance services to transport critically ill patients from distant locations to the Medical Centre [‘Health care services’ specifically includes services by way of transportation of the patient to and from a clinical establishment]	Nil
(iv)	Alternative medical treatments by way of Ayurveda [Being a recognized system of medicines]	Nil
	Value of supply	29,00,000
	CGST @ 9%	2,61,000
	SGST @ 9%	2,61,000

~~**Note:** Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from GST. Therefore, services provided in relation to preservation of stem cells by the cord blood bank operated by Ayushman Medical Centre will be exempt from GST.~~

As per amendment, notification dated 18.07.2022 Services provided by the cord blood banks by way of preservation of stem cells or any other service in relation to such preservation is removed from the exemption list and is now taxable

Question 17

- (i) “Richmondkidz” is a Play School located in Delhi. Richmond Kids has outsourced the catering services for supply of food and drink in the canteen of Play School to Ashoka Caterers, Delhi for a consideration of Rs. 8,00,000 per annum. Examine whether supply of food and drink/catering services from Ashoka Caterers to “Richmond kidz” is exempt from GST:
- (ii) Balaji Hospital, a clinical establishment located in Tirupati, is specialised in cardiac treatment. The hospital has its own canteen – Healthy Foods. The canteen serves the food and drink to the in-patients as advised by the doctors/nutritionists of the hospital. Apart from this, other patients (who are not admitted) or attendants or visitors of the in-patients also take food and drink from the canteen. Examine whether supply of food and drink/catering services to the in- patients and other patients (who are not admitted) or attendants or visitors of the in-patients is exempt from GST:(MTP 6 Marks, May’20, RTP May ’19)

Answer 17

- i. Services provided to an educational institution providing services by way of pre-school education and education up to higher secondary school or equivalent, by way of catering is exempt from GST vide exemption notification under GST. Thus, in the given case, services provided by Ashoka Caterers to Richmond Kidz are exempt from GST.
- ii. Services by way of health care services provided by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST vide exemption Notification under GST. In this regard, CBIC has clarified that food supplied by the hospital canteen to the in- patients as advised by the doctor/nutritionists is a part of composite supply of healthcare services and is not separately taxable. Thus, it is exempt from GST. However, other supplies of food by a hospital to patients (not admitted) or their attendants or visitors are taxable. In view of the same, GST is exempt on the food supplied by Healthy Foods to the inpatients as advised by doctors/nutritionists while other supplies of food by it to patients (not admitted) or attendants/visitors of the in-patients is taxable.

Question 18

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Examine whether GST is exempted on the following independent supply of services:

- (i) **Relax & Co, a tour operator, provides services to a foreign tourist for tour conducted in Kerala and receives a sum of Rs. 1,50,000.**
- (ii) **Ms. Sneha acts as a Coach for Indian Sports League (ISL), a recognised sports body, for a Tennis tournament organised by Superb retail company and received a remuneration of Rs. 4,00,000. (MTP 6 Marks, Aug'18)**

Answer 18

- i. Services provided by a tour operator to a foreign tourist are exempt from GST provided such services are in relation to a tour conducted wholly outside India. Thus, since in the given case, services provided by Relax & Co. are in relation to a tour conducted within India, the same are not exempt from GST.
- ii. Services provided by a coach to a recognized sports body for participation in a sporting event are exempt from GST provided said sporting event is organised by a recognized sports body. Thus, since in the given case, the sporting event is not organised by a recognized sports body, the services provided by Ms. Sneha are not exempt from GST.

Question 19

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

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

Notes:

1. **Services provided by Kesar Maharaj are intra-State supplies.**
2. **Wherever applicable, GST has been charged separately.**
3. **Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively. (MTP 6 Marks, March'18)**

Answer 19

Notification No. 12/2017 CT (R) dated 28.06.2017 exempts services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, if the consideration charged for such performance is not more than ₹ 1,50,000. However, exemption will not apply to service provided by such artist as a brand ambassador.

In view of the aforesaid provisions, services provided by Kesar Maharaj are exempt from GST as consideration for the classical dance performance has not exceeded ₹ 1,50,000. Therefore, his GST liability is nil.

- (i) If Kesar Maharaj is a brand ambassador of a food product and aforesaid performance is for the promotion of such food product, he will be liable to pay GST as aforesaid exemption is not applicable to service provided by an artist as a brand ambassador. His CGST and SGST liability would, therefore, be ₹ 13,365 ($₹ 1,48,500 \times 9\%$) and ₹ 13,365 ($₹ 1,48,500 \times 9\%$) respectively.
- (ii) If Kesar Maharaj gives a contemporary Bollywood style dance performance, such performance will not be eligible for aforesaid exemption. The reason for the same is that although the consideration charged does not exceed ₹ 1,50,000, said performance is not in folk or classical art forms of dance. Hence, GST would be payable on the same.

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His CGST and SGST liability would, therefore, be ₹ 13,365 (₹ 1,48,500 × 9%) and ₹ 13,365 (₹ 1,48,500 × 9%) respectively.

- (iii) If the consideration charged for the classical dance performance by Kesar Maharaj is ₹ 1,60,000, he will be liable to pay GST on the same as although the performance is by way of classical art form of dance, consideration charged for such performance has exceeded ₹ 1,50,000. His CGST and SGST liability would, therefore, be ₹ 14,400 (₹ 1,60,000 × 9%) and ₹ 14,400 (₹ 1,60,000 × 9%) respectively

Question 20

Determine the GST payable, if any, in each of the following independent cases, assuming that the rate of GST is 18% and that the service providers are registered under GST:

- (i) **Bollywood dance performance by a film actor in a film and consideration charged is ₹ 1,45,000.**
- (ii) **Carnatic music performance by a classical singer to promote a brand of readymade garments and consideration charged is ₹ 1,30,000.**
- (iii) **Carnatic music performance by a classical singer in a music concert and consideration charged is ₹ 1,55,000.**
- (iv) **Kathak dance performance by a classical dancer in a cultural programme and consideration charged is ₹ 1,45,000. (MTP 4 Marks March 22)**

Answer 20

- (i) Bollywood Dance performance by a film actor in a film is not exempt from GST even though the consideration charged is less than threshold limit of ₹ 1,50,000. The reason for the same is that the dance performance by an artist is exempt only if it is a performance in folk or classical art forms of dance. Consequently, entire consideration charged is subject to GST as follows:
= ₹ 1,45,000 × 18% = ₹ 26,100
- (ii) Carnatic music performance by a classical singer to promote a brand of readymade garments is not exempt from GST even though, the consideration charged is less than threshold limit of ₹ 1,50,000 and it is a performance in classical art forms of music. The reason for the same is that the said exemption is not applicable to service provided by such artist as a brand ambassador. Consequently, entire consideration charged is subject to GST as follows:
= ₹ 1,30,000 × 18% = ₹ 23,400
- (iii) Carnatic music performance by a classical singer in a music concert is not exempt from GST even though it is a performance in classical art forms of music. The reason for the same is the consideration charged for the service exceeds ₹ 1,50,000. Consequently, entire consideration charged is subject to GST as follows:
= ₹ 1,55,000 × 18% = ₹ 27,900
- (iv) Kathak dance performance by a classical dancer in a cultural programme is exempt from GST as it is a performance in classical art forms of dance and consideration charged does not exceed ₹ 1,50,000 [i.e. ₹ 1,45,000].

Question 21

Sungrow Pvt. Ltd. (a registered taxable person) having the gross receipt of Rs. 50 lakh in the previous financial year provides the following information relating to their services for the month of July, 2023.

Sr. No.	Particulars	Amount (Rs.)
(1)	Running a boarding school	2,40,000
(2)	Fees from prospective employer for campus interview	1,70,000

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(3)	Education services for obtaining the qualification recognised by law of foreign country	3,10,000
(4)	Renting of furnished flats for temporary stay to different persons (Rent per day is less than Rs. 1,000 per flat)	1,20,000
(5)	Conducting Modular Employable Skill Course, approved by National Council of Vocational Training	1,40,000
(6)	Conducting private tuitions amount	3,00,000
(7)	Running martial arts academy for young children	55,000
(8)	Conducting career counselling session	1,65,000

Compute the value of taxable supply and the amount of GST payable. The above receipts don't include the GST amount. Rate of GST is 18%. (MTP 8 Marks, April'19)

Answer 21

Computation of value of taxable supply and amount of GST payable

S.No.	Particulars	Rs.
(1)	Running a boarding school [Services provided by an educational institution to its students, faculty and staff are exempt.]	Nil
(2)	Fees from prospective employer for campus interview [Not exempt.]	1,70,000
(3)	Education services for obtaining the qualification recognized by law of foreign country [An institution providing education services for obtaining qualification recognized by a foreign country does not qualify as educational institution. Thus, said services are not exempt.]	3,10,000
(4)	Renting of furnished flats for temporary stay of different persons [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 Rs. 1,000 per day or equivalent are exempt] As per amendment, notification dated 18.07.2022 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 is removed from the exemption list and is now taxable.	Nil 1,20,000
(5)	Conducting Modular Employable Skill Course [An institution providing Modular Employable Skill Course qualifies as educational institution. Services provided by an educational institution to its students, faculty and staff are exempt.]	Nil
(6)	Conducting private tuitions [Not exempt.]	3,00,000
(7)	Running martial arts academy for young children [Not exempt under GST laws]	55,000
(8)	Conducting career counselling session [Not exempt under GST laws]	1,65,000
	Value of taxable supply	11,20,000
	GST payable @ 18%	2,01,600

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Question 22

Determine taxable value of supply under GST law with respect to each of the following independent services provided by the registered persons:

Particulars	Gross amount charged (Rs.)
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961	50,000
Amount charged by business correspondent from banking company for the services provided to the rural branch of a bank with respect to Savings Bank Accounts	1,00,000
Amount charged by cord blood bank for preservation of stem cells	5,00,000
Amount charged for service provided by commentator to a recognized sports body	5,20,000

(MTP 4 Marks, Oct 19)

Answer 22

Computation of value of taxable supply

Particulars	(Rs.)
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961 [Note-1]	Nil
Amount charged by business correspondent for the services provided to the rural branch of a bank with respect to Savings Bank Accounts [Note-2]	Nil
Amount charged by cord blood bank for preservation of stem cells [Note-3]	5,00,000
Service provided by commentator to a recognized sports body [Note-4]	5,20,000

Notes:

- Services by an entity registered under section 12AA of the Income-tax Act, 1961 by way of charitable activities are exempt from GST. The activities relating to advancement of yoga are included in the definition of charitable activities. So, such activities are exempt from GST.
- Services by business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch have been exempted from GST.
- ~~Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from GST.~~
As per amendment, notification dated 18.07.2022 Services provided by the cord blood banks by way of preservation of stem cells or any other service in relation to such preservation is removed from the exemption list and is now taxable.
- Services provided to a recognized sports body only by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST. Thus, services provided by commentators are liable to GST.

Question 23

Determine the GST payable @ 18% with respect to each of the following independent services provided by the registered persons:

Particulars	Gross amount charged (₹)

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Fees charged for 'Swasthya Yoga Camp' conducted by Chandra Prakash Charitable Trust, registered under section 12AB of the Income-tax Act, 1961	98,000
Amount charged by business correspondent from Wealthy Banking Company for the services provided to the rural branch of a bank with respect to Savings Bank Accounts	1,00,000
Amount charged by cord blood bank for preservation of stem cells	5,00,000
Amount charged for service provided by selectors to a recognized sports body	5,20,000

(MTP 4 Marks Oct'22)

Answer 23

Computation of GST payable

Particulars	Amount (₹)	GST payable @ 18% (₹)
Fees charged for 'Swasthya Yoga Camp' conducted by Chandra Prakash Charitable Trust, registered under section 12AB of the Income-tax Act, 1961 [Note-1]	Nil	Nil
Amount charged by business correspondent from Wealthy Banking Company for the services provided to the rural branch of a bank with respect to Savings Bank Accounts [Note-2]	Nil	Nil
Amount charged by cord blood bank for preservation of stem cells [Note-3]	5,00,000	90,000
Service provided by selectors to a recognized sports body [Note-4]	5,20,000	93,600

Notes:

- Services by an entity registered under section 12AB of the Income-tax Act, 1961 by way of charitable activities are exempt from GST. The activities relating to advancement of yoga are included in the definition of charitable activities. So, such activities are exempt from GST.
- Services by business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch have been exempted from GST.
- Services provided by cord blood banks by way of preservation of stem cells/any other service in relation to such preservation are exempt from GST.

As per amendment, notification dated 18.07.2022 Services provided by the cord blood banks by way of preservation of stem cells or any other service in relation to such preservation is removed from the exemption list and is now taxable

- Services provided to a recognized sports body only by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST. Thus, services provided by selectors are liable to GST.

Question 24

Miss. P, a registered supplier of Rajasthan, has received the following amounts in respect of the activities undertaken by her during the month of April:

S. No.	Particulars	Amount (in ₹)
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Paper 3 - Taxation

1	Amount received for warehousing of sugarcane	50,000
2	Commission received as business facilitator for the services provided to the urban branch of a nationalized bank with respect to savings bank accounts	20,000
3	Amount received for services by way of labour contracts for repairing a single residential unit otherwise than as a part of residential complex	10,000

All the transactions stated above are inter-State transactions and all amounts are exclusive of GST.

You are required to compute total GST payable by Miss. P for the month of April assuming the rate of GST to be 18%. (MTP 4 Marks April '23)

Answer 24

Computation of value of taxable supply on which GST is to be paid by Miss. P

Particulars	IGST* (₹)
Amount received for warehousing of sugarcane [Warehousing of agricultural produce is exempt from GST.]	Nil
Commission received as business facilitator [Services provided by a business facilitator to a banking company with respect to accounts only in its rural area branch are exempt from GST. In the given case since services are being provided to urban branch of the bank, they are taxable. However, the tax payable thereon is to be paid by the recipient of services i.e. banking company, under reverse charge. Hence, Miss P will not be liable to pay GST on commission received for said services.]	Nil
Amount received for services by way of labour contracts [Services by way of pure labour contracts of construction, erection, commissioning, or installation of original works pertaining to a single residential unit otherwise than as a part of a residential complex are exempt from GST. Since such services are being provided for repairing the residential unit, they are not eligible for exemption.]	1,800 [10,000 X 18%]
Total IGST payable	1,800

*Note: IGST is payable on inter-State supply.

Question 25

Examine whether GST is payable in the following independent supply of services:

- (iv) Indiana Engineering College, a recognised educational institution, has conducted an entrance test examination for various courses run by it and charged entrance fees from the applicants.
- (v) Ramfal Lalaji, an agriculturist, has stored sugarcane in a warehouse. He has taken fumigation services in the said warehouse from Gupta Pest Control Co. for which he paid the consideration of ₹ 6,000. (RTP Nov '18)

Answer 25

- (i) Services provided by an educational institution by way of conduct of entrance examination against consideration in the form of entrance fee are exempt from GST vide Notification No. 12/2017 CT (R) dated 28.06.2017 as amended. Since in the given case, services provided by Indiana Engineering College, an educational institution are by way of conduct of entrance examination against entrance fee, the same is exempt and thus, GST is not payable in this case.

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Paper 3 - Taxation

- (ii) Services by way of fumigation in a warehouse of agricultural produce ~~are exempt from GST vide Notification No. 12/2017-CT (R) dated 28.06.2017 as amended.~~ In the present case, since Gupta Pest Control Co. provides services by way of fumigation in the warehouse of sugarcane [being an agricultural produce], said services ~~are exempt~~ **are not exempt** and **GST is not payable on the same.**

As per amendment dated 18.07.2022 Services by way of fumigation in a warehouse of agricultural produce is removed from the exemption list and is now taxable.

Question 26

- (a) **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?**
- (b) **M/s Damodar Ltd. provides services by way of storage of seasonal fruits and vegetables in Bhatinda, Punjab. The monthly rental for a go down is ₹ 15,000. Examine whether GST is payable by M/s Damodar Ltd. (RTP Nov '19)**

Answer 26

- (a) 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.

As per amendment, notification dated 18.07.2022 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 is removed from the exemption list and is now taxable.

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.

- (b) Services by way of storage/ warehousing of cereals, pulses, fruits, nuts and vegetables, spices, copra, sugarcane, jaggery, raw vegetable fibres such as cotton, flax, jute etc., indigo, unmanufactured tobacco, betel leaves, tendu leaves, coffee and tea have been exempted from GST under an exemption notification under GST. Thus, no GST is payable on the services provided by M/s Damodar Ltd. by way of storage of seasonal fruits and vegetables in Bhatinda, Punjab.

Question 27

Gita Services Limited, registered under GST, is engaged in providing various services to Government. The company provides the following information in respect of services provided during the month of April:

S. No.	Description of Services provided
(i)	Supply of manpower for cleanliness of roads not involving any supply of goods.

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Paper 3 - Taxation

(ii)	Service provided by Fair Price Shops owned by Gita Services Limited by way of sale of sugar under Public Distribution System against consideration in the form of commission.
(iii)	Service of maintenance of street lights in a Municipal area involving replacement of defunct lights and other spares along with maintenance. Generally replacement of defunct lights and other spares constitutes 35% of the supply of service.
(iv)	Service of brochure distribution provided under a training programme for which 70% of the total expenditure is borne by the Government.

Comment on the taxability or otherwise of the above transactions under GST law. Also state the correct legal provisions for the same. (RTP May '22)

Answer 27

S. No.	Particulars	Taxability
(i)	Supply of manpower for cleanliness of roads not involving any supply of goods. [Pure services provided to Government are exempt.]	Exempt
(ii)	Service provided by Fair Price Shops by way of sale of sugar under Public Distribution System [Service provided by Fair Price Shops to Government by way of sale of sugar under Public Distribution System against consideration in the form of commission is exempt.]	Exempt
(iii)	Service of maintenance of street lights in a Municipal area involving replacement of defunct lights and other spares constituting 35% of the supply of service. [Composite supply of goods and services to Government in which the value of supply of goods constitutes not more than 25% of the value of the said composite supply is exempt. Since, in this case value of supply of goods constitutes 35% of the supply of composite service, same is taxable.]	Taxable
(iv)	Service of brochure distribution provided under a training programme. [Services provided to the Government under any training programme for which 75% or more of the total expenditure is borne by the Government is exempt. Since in the given case, 70% of the total expenditure is borne by the Government, it is taxable.]	Taxable

Question 28

Determine whether GST is payable in each of the following independent transactions:

- (i) **Dhruv Developers sold a plot of land in Greater Noida after levelling, laying down of drainage lines, water lines and electricity lines.**
- (ii) **Deccan Shipping Pvt. Ltd., registered under GST in Andaman and Nicobar islands, provided the passenger transportation services to the local residents in the ferries owned by it from Neil Island to Havelock Island.**
(RTP May '23)

Answer 28

- (i) GST is not payable by Dhruv Developers on sale of plot of land . Circular No. 177/09/2022 GST dated 03.08.2022 clarifies applicability of GST on sale of land after levelling, laying down of drainage lines etc. As per Para 5 of Schedule III of the CGST Act, 2017, 'sale of land' is neither a supply of goods nor a supply of services. Therefore, the sale of land does not attract GST. Land may be sold either as it is or after some development such as levelling, laying down of drainage lines, water lines, electricity lines, etc. It is clarified that sale of such developed land is

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Paper 3 - Taxation

also sale of land and is covered by Para 5 of Schedule III and accordingly, does not attract GST.

- (ii) Transportation of passenger services provided by the private operator - Deccan Shipping Pvt. Ltd. - are exempt from GST. Circular No. 177/09/2022 GST dated 03.08.2022 clarifies the applicability of GST on private ferry tickets. Transportation of passengers by public transport, other than predominantly for tourism purpose, in a vessel between places located in India is exempt from GST vide Notification No. 12/2017 CT (R) dated 28.06.2017. It is clarified that this exemption would apply to tickets purchased for transportation from one point to another irrespective of whether the ferry is owned or operated by a private sector enterprise or by a PSU/Government.

It is further clarified that, the expression 'public transport' used in the said exemption notification only means that the transport should be open to public. It can be privately or publicly owned. Only exclusion is on transportation which is predominantly for tourism, such as services which may combine with transportation, sightseeing, food and beverages, music, accommodation such as in shikara, cruise etc.

Question 29

With reference to the provisions of GST law, briefly Answer the following questions:-

- (a) Income is received by Maharashtra Government from renting of immovable property to Ganpati Morya Pvt. Ltd., registered in Maharashtra (Turnover of the company was ₹ 18 lakh in the preceding financial year). Is GST payable in the present case? If yes, who is liable to pay the same?
- (b) Mr. Vivek Goyal, director of A2Z Pvt. Ltd. Company has received sitting fee amounting to ₹ 1 lakh from A2Z Pvt. Ltd for attending the Board meetings. (RTP Nov '18)

Answer 29

- (a) Notification No. 12/2017 CT (R) dated 28.06.2017 has inter alia exempted the services provided by the State Government to a business entity with an aggregate turnover of up to ₹ 20 lakh (₹ 10 lakh in case of a Special Category States) in the preceding FY. However, the same shall not apply to services by way of renting of immovable property.

In the given case, services by way of renting of immovable property is provided by Maharashtra Government to Ganpati Morya Pvt. Ltd, registered in Maharashtra. Therefore, the above exemption will not apply in this case even though the turnover of the company was less than ₹ 20 lakh in the preceding financial year. Thus, GST is payable in the given case.

Notification No. 13/2017 CT (R) dated 28.06.2017 as amended inter alia provides that reverse charge is applicable in case of services supplied by the State Government by way of renting of immovable property to a person registered under the Central Goods and Services Tax Act, 2017. Thus, GST is payable by Ganpati Morya Pvt. Ltd., being a registered person in the present case.

- (b) Notification No. 13/2017 CT (R) dated 28.06.2017 inter alia provides that GST on supply of services by the director of a company to the said company located in the taxable territory is payable on a reverse charge basis. **(As per amendment GST on reverse charge is to be paid by services supplied by director of a company or body corporate to said company or body corporate. Person liable to pay tax: Company or body corporate.)** Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., A2Z Pvt. Ltd. Company. **(Note even after the amendment the conclusion stays the same)**

Question 30

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Paper 3 - Taxation

Decide with reason whether the following independent services are exempt under CGST Act, 2017:

- (i) **Gould Residents' Welfare Association received ` 9,000 per month as contribution from each member for sourcing of goods and services from third persons for common use of its members.**
- (ii) **Mr. Vial, a performing artist, has received ` 1,58,000 from performance of classical dance and ` 90,000 from acting in TV Serial during the month of June 2023. (PYP 4 Marks, May'19)**

Answer 30

- (i) Service by an unincorporated body or a registered non-profit entity, to its own members by way of share of contribution up to an amount of ` 7,500 per month per member for sourcing of goods/services from a third person for the common use of its members in a housing society or residential complex, is exempt. In the given case, monthly contribution per month per member received by Gould Residents' Welfare Association exceeds ` 7,500. Therefore, exemption will be available up to ` 7,500 and GST would be payable on the amount in excess of ` 7,500 (viz. ` 1,500 in this case).
- (ii) Services by an artist by way of a performance in folk or classical art forms of music, dance, or theatre, if the consideration charged for such performance is not more than ` 1,50,000 are exempt from Gastrin the given case, since the consideration received by the performing artist - Mr. Vial for performance of classical dance is more than ` 1,50,000, said services are not exempt. Further, consideration received for acting in TV serial is also not exempt since said performance is not in folk/classical art forms of theatre.

Question 31

Green Agro Services, a registered person provides the following information relating to its activities during the month of February, 2024:

Gross Receipts from	(`)
Services relating to rearing of sheep's	6,00,000
Services by way of artificial insemination of horses	4,00,000
Processing of sugarcane into jiggery	8,00,000
Milling of paddy into rice	7,50,000
Services by way of fumigation in a warehouse of agricultural produce	1,80,000

All the above receipts are exclusive of GST.

Compute the value of taxable supplies under GST laws for the month of February, 2024. (PYP 6 Marks, Jan'21)

Answer 31

Computation of value of taxable supplies

Particulars	Amount (`)
Services relating to rearing of sheep's [Exempt since services relating to rearing of all life forms of animals, except horses, for food etc. are exempt.]	Nil
Services by way of artificial insemination of horses [Not exempt since services of artificial insemination are exempt only of livestock other than horses.]	4,00,000
Processing of sugarcane into jiggery [Not exempt, since processes which alter the essential characteristics of agricultural produce are not exempt and processing of sugarcane into jiggery changes the essential characteristics of sugarcane.]	8,00,000

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Paper 3 - Taxation

Milling of paddy into rice [Not exempt, since this process, being carried out after cultivation is over, is not an intermediate production process in relation to cultivation of plants and it also changes the essential characteristics of paddy.]	7,50,000
Services by way of fumigation in a warehouse of agricultural produce [Specifically exempt from GST.] (As per amendment in the notification dated 18.07.2022 Services by way of fumigation in a warehouse of agricultural produce is removed from the exemption list and is now taxable)	Nil 1,80,000
Value of taxable supplies	21,30,000

Question 32

Satya Sai Residents Welfare Association, a registered person under GST has 30 members each paying ₹ 8,000 as maintenance charges per month for sourcing of goods and services from third persons for common use of its members.

The Association purchased a water pump for ₹ 59,000 (inclusive of GST of ₹ 9,000) and availed input services for ₹ 23,600 (inclusive of GST of ₹ 3,600) for common use of its members during February 2024. Compute the total GST payable, if any, by Satya Sai Residents Welfare Association, for February 2024. GST rate is 18%. All transactions are intra-State.

There is no opening ITC and all conditions for ITC are fulfilled. (PYP 4 Marks, Jan'21)

Answer 32

Computation of total GST payable by Satya Sai Residents Welfare Association

Particulars	Value (₹)	GST @ 18% (₹)
Maintenance charges received [₹ 8,000 × 30 members] [Services by RWA to its members for sourcing of goods or services from a third person for the common use of its members in a housing society are exempt provided the share of contribution per month per member is up to ₹ 7,500. Otherwise, entire amount is taxable.]	2,40,000	
Total GST payable [It has been logically presumed that maintenance charges are exclusive of GST.]		43,200

Note:

Residents Welfare Association is entitled to take ITC of GST paid by them on capital goods, goods and input services, used by it for making supplies to its members and use such ITC for discharge of GST liability on such supplies where the amount charged for such supplies is more than ₹ 7,500 per month per member. Thus, Satya Sai Residents Welfare Association can avail ITC of GST paid on water pump purchased (₹ 9,000) and input services availed (₹ 3,600). Net GST payable in that case will come out ₹ 30,600.

Question 33

"Under the GST law, taxes on taxable services supplied by the Central Government or the State Government to a business entity in India are payable by recipient of services".

State the exceptions of the above statement. (PYP 5 Marks May'22)

Answer 33

Tax on following services supplied by the Central Government or State Government to

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Paper 3 - Taxation

a business entity in India is payable by the supplier of services:

- (1) services of renting of immovable property provided to an unregistered business entity.
 - (2) ~~services by the Department of Posts by way of speed post, express parcel post, life insurance, and agency services provided to a person other than Central Government, State Government or Union territory or local authority.~~
- Services by the Department of Posts by way of speed post, express parcel post, life insurance, and agency services provided to a person other than the Central Government, State Government, Union territory; is removed from the exemption list and is now taxable for the recipient of service.**
- (3) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport.
 - (4) services of transport of goods or passengers.

Question 34

Examine whether GST is exempted on the following independent supply of services:

- (iii) **Relax & Co, a tour operator, provides services to a foreign tourist for tour conducted in Kerala and receives a sum of Rs. 1,50,000.**
- (iv) **Ms. Sneha acts as a Coach for Indian Sports League (ISL), a recognised sports body, for a Tennis tournament organised by Superb retail company and received a remuneration of Rs. 4,00,000. (PYP 3 Marks, May '18)**

Answer 34

- iii. Services provided by a tour operator to a foreign tourist are exempt from GST provided such services are in relation to a tour conducted wholly outside India. Thus, since in the given case, services provided by Relax & Co. are in relation to a tour conducted within India, the same are not exempt from GST.
- iv. Services provided by a coach to a recognized sports body for participation in a sporting event are exempt from GST provided said sporting event is organised by a recognized sports body. Thus, since in the given case, the sporting event is not organised by a recognized sports body, the services provided by Ms. Sneha are not exempt from GST.

Section – B

Question 1

Exempt supply includes supply of any goods or services or both which attracts nil rate of tax and which may be wholly exempt from tax, but excludes non-taxable supply. Discuss the validity of the statement.

Answer 1

The statement is not fully valid in law. Exempt supply has been defined as supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax and includes non-taxable supply.

Question 2

Services provided by an entity registered under section 12AA of the Income-tax Act, 1961 are exempt from GST if such services are provided by way of charitable activities. Elaborate the term 'charitable activities'.

Answer 2

The term 'charitable activities' mean activities relating to-

- (i) public health by way of-

Paper 3 - Taxation

- (A) care or counseling of
 - (I) terminally ill persons or persons with severe physical or mental disability;
 - (II) persons afflicted with HIV or AIDS;
 - (III) persons addicted to a dependence-forming substance such as narcotics drugs or alcohol; or
- (B) public awareness of preventive health, family planning or prevention of HIV infection;
- (ii) advancement of religion, spirituality or yoga;
- (iii) advancement of educational programmes/skill development relating to,-
 - (A) abandoned, orphaned or homeless children;
 - (B) physically or mentally abused and traumatized persons;
 - (C) prisoners; or
 - (D) persons over the age of 65 years residing in a rural area;
- (iv) preservation of environment including watershed, forests & wildlife.

Question 3

Examine which of the following independent services are exempt from GST:

- (a) **Food supplied by the canteen run by a hospital to the in-patients as advised by the doctors.**
- (b) **An RWA, registered under GST, collects the maintenance charges of ₹ 6,500 per month per member.**

Answer 3

- (a) Services by way of health care services by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST. Food supplied to the in-patients by a canteen run by the hospital, as advised by the doctor/nutritionists, is a part of composite supply of healthcare and not separately taxable. Thus, said services are exempt from GST.
- (b) Supply of service by a RWA (unincorporated body or a non-profit entity registered under any law) to its own members by way of reimbursement of charges or share of contribution up to an amount of ₹ 7500 per month per member for providing services and goods for the common use of its members in a housing society/a residential complex are exempt from GST. Hence, in the given case, services provided by the RWA are exempt from GST since the maintenance charges collected per month per member do not exceed ₹ 7500.

Question 4

An individual acts as a referee in a football match organized by Sports Authority of India. He has also acted as a referee in another charity football match organized by a local sports club, in lieu of a lump sum payment. Discuss whether any GST is payable on the activities undertaken by him.

Answer 4

Services provided to a recognized sports body by an individual, inter alia, as a referee in a sporting event organized by a recognized sports body is exempt from GST. Since in the first case, the football match is organized by Sports Authority of India, which is a recognized sports body, services provided by the individual as a referee in such football match will be exempt.

However, when he acts as a referee in a charity football match organized by a local sports club, he would not be entitled to afore-mentioned exemption as a local sports club is not a recognized sports body and thus, GST will be payable in this case.

Question 5

RXL Pvt. Ltd. manufactures a beauty soap with the brand name 'Forever Young'. RXL Pvt. Ltd. has organized a concert to promote its brand. Ms. Ahana Kapoor, its

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brand ambassador, who is a leading film actress, has given a classical dance performance in the said concert as a part of her services as a brand ambassador of the company. The proceeds of the concert worth ₹ 1,20,000 will be donated to a charitable organization by Ms. Ahana.

Examine whether Ms. Ahana Kapoor will be required to pay any GST for classical dance performance given in the said concert.

Answer 5

Services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre are exempt from GST, if the consideration charged for such performance is not more than ₹ 1,50,000. However, such exemption is not available in respect of service provided by such artist as a brand ambassador.

Since Ms. Ahana Kapoor is the brand ambassador of 'Forever Young' soap manufactured by RXL Pvt. Ltd., the services rendered by her by way of a classical dance performance in the concert organized by RXL Pvt. Ltd. to promote its brand will not be eligible for the above-mentioned exemption and thus, be liable to GST. The fact that the proceeds of the concert will be donated to a charitable organization will not have any bearing on the eligibility or otherwise to the above-mentioned exemption.

Question 6

Examine whether GST is exempted on the following independent supplies of services:

- (i) **Service provided by a private transport operator to Scholar Boys Higher Secondary School in relation to transportation of students to and from the school.**
- (ii) **Services provided by way of vehicle parking to general public in a shopping mall.**

Answer 6

- (i) Yes. Services provided TO an educational institution by way of transportation of students are exempted from GST.
- (ii) No. Services provided by way of vehicle parking to general public are not exempted from GST. Therefore, GST is payable on the same.

Question 7

A State Transport Undertaking has hired motor vehicles meant to carry 8 - 10 passengers from Fast Cab Renting, a motor vehicle renting company. Give your comments as to whether any GST is payable in this case.

Answer 7

Services by way of giving on hire, inter alia, to a State Transport Undertaking, a motor vehicle meant to carry more than 12 passengers is exempt from GST.

Since the motor vehicles given on hire by Fast Cab Renting to the State Transport Undertaking are meant to carry 8-10 passengers, the same would not be eligible for exemption and would thus, be liable to GST.

Question 8

Indiana Engineering College, a recognised educational institution, has conducted an entrance test examination for various courses run by it and charged entrance fees from the applicants. Determine whether Indiana Engineering College is liable to pay GST on the same.

Answer 8

Services provided by an educational institution by way of conduct of entrance examination against consideration in the form of entrance fee are exempt from GST.

Since in the given case, services provided by Indiana Engineering College - an educational institution - are by way of conduct of entrance examination against entrance fee, the same is exempt and thus, GST is not payable in this case.

Question 9

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Paper 3 - Taxation

Babloo Transporters, a Goods Transport Agency, transported relief materials meant for victims of Kerala floods, a natural disaster, by road from Delhi to Ernakulam, for a company. Babloo Transporters is of the view that it is not liable to pay GST on the said services provided as said services are exempt. You are required to advice it on the said issue.

Answer 9

Services provided by a goods transport agency, by way of transport in a goods carriage of relief materials meant for victims of, inter alia, natural or man-made disasters, calamities, are exempt from GST. Therefore, services provided by Babloo Transporters will be exempt from GST.

Question 10

Keyan Enterprises, an event organizer, provided services to Breathing Wall Ltd. by way of organizing business exhibition in New Delhi as part of Make in India initiative. Keyan Enterprises claims that it is not required to pay GST as the services provided by way of organizing business exhibition are exempt from GST. Examine the technical veracity of the claim of Keyan Enterprises, in the given case.

Answer 10

No, the claim made by Keyan Enterprises that it is not required to pay GST is not correct. Services provided by an organiser to any person in respect of a business exhibition are exempt from GST only when such business exhibition is held outside India. However, since in the given case, the exhibition is being organized in India, the services of organization of event by Keyan Enterprises will not be exempt from GST.

Question 11

ST Ltd. has given on hire 5 trucks to Titu Transporters of Delhi (a goods transport agency) for transporting goods in Central and West Delhi. The hiring charges for the trucks are ₹ 7,500 per truck per day. Examine whether GST is payable in the given case.

Answer 11

GST is not payable in case of hiring of trucks to Titu Transporters since services by way of giving on hire, inter alia, to a goods transport agency, a means of transportation of goods are exempt.

Question 12 illustration

Good Health Medical Centre, a clinical establishment, offers the following services:

- (i) **Reiki healing treatments.**
- (ii) **Plastic surgeries. One such surgery was conducted to repair cleft lip of a new born baby.**
- (iii) **Air ambulance services to transport critically ill patients from distant locations to the Medical Centre.**
- (iv) **Palliative care for terminally ill patients. On request, such care is also provided to patients at their homes. (Palliative care is given to improve the quality of life of patients who have a serious or life-threatening disease but the goal of such care is not to cure the disease).**
- (v) **Alternative medical treatments by way of yoga.**

Good Health Medical Centre also operates a cord blood bank which provides services in relation to preservation of stem cells.

Good Health Medical Centre is of the view that since it is a clinical establishment, all the service provided by it as well as all the services provided to it are exempt from GST.

Paper 3 - Taxation

You are required to examine the situation in the light of relevant statutory provisions.

Answer 12

Health care services provided by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST under Entry 74. In light of the same, the eligibility to exemption in respect of each service offered by Good Health Medical Centre is examined below:

- (i) **Not Exempt.** Since reiki healing is not a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010, it would not be exempt and thus, GST would be payable thereon.
- (ii) **Exempt.** Health care service does not include, inter alia, cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma. Therefore, plastic surgeries will not be entitled to the said exemption and thus, GST would be payable thereon. However, plastic surgery conducted to repair a cleft lip will be eligible for exemption as it reconstructs anatomy or functions of body affected due to congenital defects (cleft lip).
- (iii) **Exempt.** Health care service includes services by way of transportation of the patient to and from a clinical establishment. Thus, air ambulance service to transport critically ill patients to Good Health Medical Centre would be eligible for exemption under the said notification.
- (iv) **Exempt.** Health care service means any service by way of diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy in any recognized system of medicines in India. It is immaterial whether such service is provided at the clinical establishment or at the home of the patient or at any other place. Thus, palliative care for terminally ill patients is exempt.
- (v) **Exempt.** Since Yoga is a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010, the same would be eligible for exemption under the said notification.

~~Further, services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from GST under Entry 73. Therefore, services provided in relation to preservation of stem cells by the cord blood bank operated by Good Health Medical Centre will be exempt from GST.~~

As per amendment, notification dated 18.07.2022 Services provided by the cord blood banks by way of preservation of stem cells or any other service in relation to such preservation is removed from the exemption list and is now taxable.

It is important to note that Entry 74 of the exemption notification grants exemption to health care services provided BY a clinical establishment and not to services provided TO a clinical establishment. Therefore, Good Health Medical Centre's contention that since it is a clinical establishment, all the services provided to it are also exempt from GST is not correct in law.

Question 13 Illustration

M/s. Apna Bank Limited, a scheduled commercial bank, has furnished the following details for the month of August:

Particulars	Amount [₹ in crore s](excluding GST)
Extended housing loan to its customers	100
Processing fees collected from its customers on sanction of loan	20

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Commission collected from its customers on bank guarantee	30
Interest income on credit card issued by the bank	40
Interest received on housing loan extended by the bank	25
Minimum balance charges collected from current account and saving account holder	01

Answer 13

Computation of value of taxable supply of M/s. Apna Bank Limited for the month of August:

Particulars	Amount in crores (₹)
Housing loan extended to customers [Since money does not constitute goods, extending housing loan is not a supply.]	Nil
Processing fee collected on sanction of loan [Interest does not include processing fee on sanction of the loan. Hence, the same is taxable.]	20
Commission collected on bank guarantee [Any commission collected over and above interest on loan, advance or deposit are not exempt.]	30
Interest income on credit card issued by the bank [Services by way of extending loans in so far as the consideration is represented by way of interest are exempt from tax. However, interest involved in credit card services is specifically excluded from this exemption entry.]	40
Interest received on housing loan [Services by way of extending loans in so far as the consideration is represented by way of interest are exempt from tax.]	Nil
Minimum balance charges collected from current account and saving account holder [Any charges collected over and above interest on loan, advance or deposit are not exempt.]	01
Value of taxable supply	91

Question 14 Illustration

Determine the GST payable, if any, in each of the following independent cases, assuming that the rate of GST is 18% and that the service providers are registered:

- Bollywood dance performance by a film actor in a film and consideration charged is ₹ 1,45,000.**
- Carnatic music performance by a classical singer to promote a brand of readymade garments and consideration charged is ₹ 1,30,000.**
- Carnatic music performance by a classical singer in a music concert and consideration charged is ₹ 1,55,000.**
- Kathak dance performance by a classical dancer in a cultural programme and consideration charged is ₹ 1,45,000.**

Answer 14

- Bollywood Dance performance by a film actor in a film is not exempt from GST even

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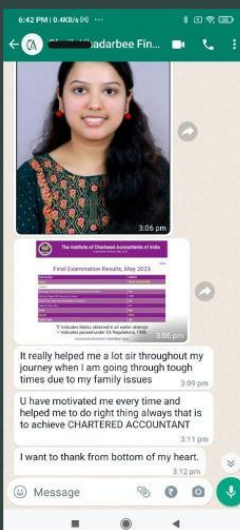
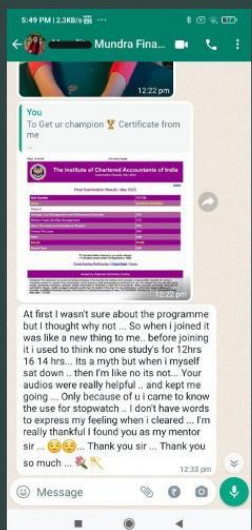
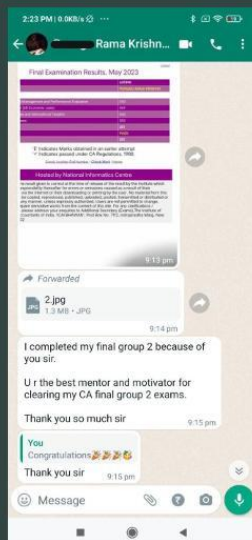
Paper 3 - Taxation

though the consideration charged is less than threshold limit of ₹ 1,50,000. The reason for the same is that the dance performance by an artist is exempt only if it is a performance in folk or classical art forms of dance.

- (b) Carnatic music performance by a classical singer to promote a brand of readymade garments is not exempt from GST even though, the consideration charged is less than threshold limit of ₹ 1,50,000 and it is a performance in classical art forms of music. The reason for the same is that the said exemption is not applicable to service provided by such artist as a brand ambassador.
- (c) Carnatic music performance by a classical singer in a music concert is not exempt from GST even though it is a performance in classical art forms of music. The reason for the same is the consideration charged for the service exceeds ₹ 1,50,000. Consequently, entire consideration charged is subject to GST as follows: = ₹ 1,55,000 × 18% = ₹ 27,900
- (d) Kathak dance performance by a classical dancer in a cultural programme is exempt from GST as it is a performance in classical art forms of dance and consideration charged does not exceed ₹ 1,50,000 [i.e. ₹ 1,45,000].

Paper 3 - Taxation

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Chapter 6 Time and Value of Supply

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q3, Q5, Q6								Q4	
RTP			Q2	Q7				Q1				
Q & A												
MTP	Q6	Q7,Q 12	Q11	Q8	Q10							Q5
PYP	Q9, Q17	Q18	Q2	Q16			Q13	Q1				
RTP	Q3, Q14	Q4			Q15							

Section – A MULTIPLE CHOICE QUESTIONS (MCQS)

1. Ms. Pearl is a classical singer. She wants to organize a classical singing function, so she booked an auditorium on 10th August for a total amount of ₹ 20,000. She paid ₹ 5,000 as advance on that day. The classical singing function was organized on 10th October. The auditorium owner issued invoice to Ms. Pearl on 25th November amounting to ₹ 20,000. Pearl made balance payment of ₹ 15,000/- on 30th November. Determine the time of supply in this case.
- Time of supply is 25th November for ₹ 20,000.
 - Time of supply is 25th November for ₹ 5,000 & 30th November for ₹ 15,000.
 - Time of supply is 10th August for ₹ 5,000 & 10th October for ₹ 15,000.
 - Time of supply is 10th October for ₹ 20,000. **(RTP Nov '21)**

Ans: (c)

2. M/s. Ramchandra Associates has received some taxable services from Mohan Dalal (P) Ltd. on 12.01.20XX by making a cash payment of ₹ 5,00,000 on same day. The payment was entered in the books of account of M/s. Ramchandra Associates on 16.01.20XX and in the books of account of Mohan Dalal (P) Ltd. on 20.01.20XX. The invoice was issued by Mohan Dalal (P) Ltd. on 18.01.20XX. Determine the time of supply in the given case.
- 12.01.20XX
 - 16.01.20XX
 - 18.01.20XX
 - 20.01.20XX **(RTP May '19)**

Ans: (c)

3. Where the goods being sent or taken on approval for sale or return are removed

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before the supply takes place, the invoice shall be issued:

- before/at the time of supply.
- 6 months from the date of removal.
- Earlier of (a) or (b).
- Later of (a) or (b). **(MTP 1 Mark, April'19)**

Ans: (a)

4. Ms. Pearl is a classical singer. She wants to organize a classical singing function, so she booked an auditorium on 10th August for a total amount of ₹ 20,000. She paid ₹ 5,000 as advance on that day. The classical singing function was organized on 10th October. The auditorium owner issued invoice to Ms. Pearl on 25th November amounting to ₹ 20,000. Pearl made balance payment of ₹ 15,000 on 30th November. Determine the time of supply in this case.

- Time of supply is 25th November for ₹ 20,000.
- Time of supply is 25th November for ₹ 5,000 & 30th November for ₹ 15,000.
- Time of supply is 10th August for ₹ 5,000 & 10th October for ₹ 15,000.
- Time of supply is 10th October for ₹ 20,000. **(MTP 2 Marks March '23)**

Ans: (c)

**5. Mr. Rahu is receiving legal services from a lawyer Mr. Ketu. The information regarding date of payment, invoice etc. is as follows-
Invoice issued by Mr. Ketu on 15-Apr-20XX
Payment received by Mr. Ketu on 5-May-20XX
Date of payment entered in books of accounts of Rahu: 1-May-20XX What is time of supply of goods?**

- 1-May-20XX
- 5-May-20XX
- 14-Jun-20XX
- 15-Apr-20XX **(MTP 2 Marks, April'19)**

Ans: (d)

6. The time of supply of service in case of reverse charge mechanism is

- Date on which payment is made to the supplier
- Date immediately following 60 days from the date of issue of invoice
- Date of invoice
- Earlier of (a) and (b) **(MTP 1Marks, March'19)**

Ans: (d)

7. Mr. Avishkar is a painter registered under GST in Delhi. He sends his artwork for exhibition in Mumbai. At what point of time, supply is considered to have been made under GST?

- When painting is completed.
- When painting is sent for exhibition in Mumbai.
- When painting is displayed at the exhibition in Mumbai.
- When painting is purchased by one of the visitors in the exhibition. **(RTP Nov '19)**

Ans: (d)

Question & Answers

Question 1

- An order is placed to T & Co;, Sholapur on 18th August, 2023 for supply of fabrics to make garments. Company delivered the fabrics on 4th September,**

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2023 and after completion of the order issued the invoice on 15th September, 2023. The payment against the same was received on 30th September, 2023. Determine the time of supply for the purpose of payment under CGST Act, 2017 with your explanations.

- (ii) **HM Industries Ltd. engaged the services of a transporter for road transport of a consignment on 20th May, 2023. However, the consignment could not be sent immediately on account of a strike in the factory, and instead was sent on 20th July 2023. Invoice was received from the transporter on 20th June 2023 and payment was made on 25th August 2023.**

What is the time of supply of the transporter's service? (PYP 5 Marks Dec '21)

Answer 1

- (i) The time of supply of goods (where movement of goods involve) (fabric) for the purpose of payment of tax is the date of issue of invoice or the last date when the invoice ought to have been issued. Further, a registered person is required to issue a tax invoice before or at the time of delivery of goods or making available thereof to the recipient. Thus, in the given case, time of supply is 4th September, 2021.
- (ii) **Alternative 1:** Assuming that services of transportation of goods by road have been provided by a GTA which has not paid GST @ 12%; i.e. GST is payable @ 5%.

Tax on supply of transportation of goods by road services provided by a Goods Transport Agency (GTA) to a body corporate is payable under reverse charge by such body corporate.

Time of supply of services taxable under reverse charge is earliest of:-

- (a) date of making payment, or
- (b) 61st day from the date of issue of invoice by supplier Thus, in the given case, time of supply is earlier of
- (a) 25th August or
- (b) 20th August 2021 (61st day from 20th June)

Thus, in the given case, time of supply 20th August 2023

Alternative 2: Assuming that services of transportation of goods by road have been provided by a GTA which has paid GST @ 12%. Thus, GST is payable under forward charge.

The time of supply of services in case where the invoice is issued within 30 days of provision of service is the earlier of date of invoice or date of receipt of payment.

Thus, in the given case, time of supply is 20th June, 2023

Question 2

Examine the following independent cases of supply of goods and services and determine the time of issue of invoice under each of the cases as per the provisions of Cystic, 2017:

- (i) **Sakha Enterprises, Kolkata entered into a contract with Suraj Enterprises, Surat for supply of goods on 31st October, 2023. The goods were removed from the factory at Kolkata on 11th October, 2023. As per the agreement, the goods were to be delivered by 31st October, 2023. Suraj Enterprises has received the goods on 14th October, 2023.**
- (ii) **Trust and Fun Ltd, an event management company, has provided its services for an event at Kapoor Film Agencies, Mumbai on 5th June, 2023. Payment for the event was made on 19th June, 2023. (PYP 4 Marks, May'19)**

Answer 2

- (i) A registered person supplying taxable goods shall issue a tax invoice, before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods. Therefore, in the given case, invoice has to be issued on or before, 11th October 2023 (the time of removal of goods).
- (ii) A registered person [other than an insurer/banking company/financial institution, including an NBFC] supplying taxable services shall issue a tax invoice before or

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after the provision of service, but within a period of 30 days from the date of supply of service. Thus, in the given case, invoice has to be issued within 30 days of 5th June 2023 (date of supply of service), i.e. on or before, 5th July 2023.

Question 3

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

Examine whether the tax invoice has been issued within the time limit prescribed under law?

Tax consultant of Royal Fashions objected to the invoice raised suggesting that the amount of tax charged in respect of the taxable supply should be shown separately in the invoice raised by Aura Beauty Services Ltd. However, Aura Beauty Services Ltd. contended that there is no mandatory requirement of showing tax component separately in the invoice. You are required to examine the validity of the objection raised by tax consultant of Royal Fashions? (RTP May '18)

Answer 3

As per section 31 of the CGST Act, 2017 read with the CGST Rules, 2017, in case of taxable supply of services, invoices should be issued before or after the provision of service, but within a period of 30 days [45 days in case of insurer/ banking company or financial institutions including NBFCs] from the date of supply of service.

In view of said provisions, in the present case, the tax invoice should have been issued in the prescribed time limit of 30 days from the date of supply of service i.e. upto 03.02.20XX. However, the invoice has been issued on 10.02.20XX.

In such a case, the time of supply as per section 13 of the CGST Act, 2017 would be 04.01.20XX i.e. earliest of the following:

Date of provision of service (04.01.20XX)

Date of receipt of payment (11.02.20XX)

Section 31 of the CGST Act, 2017 read with the CGST Rules, 2017, inter alia, provides that tax invoice shall contain the following particulars-

Total value of supply of goods or services or both;

Rate of tax (central tax, State tax, integrated tax, Union territory tax or cess);

Amount of tax charged in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess);

The objection raised by the tax consultant of Royal Fashions suggesting that the amount of tax charged in respect of the taxable supply should be shown separately in the invoice raised by Aura Beauty Services Ltd., is valid in law. In the present case, the tax amount has not been shown separately in the invoice.

Question 4

Explain the meaning of the term “date of receipt of payment” as per section 13 of the CGST Act, 2017. (RTP Nov '18)

Answer 4

“Date of receipt of payment” in terms of section 13 of CGST Act, 2017 refers to the

- date on which the payment is recorded in the books of account of the entity (supplier of service) that receives the payment, or
- the date on which the payment is credited to the entity's bank account, whichever is earlier.

Paper 3 - Taxation

Question 5

GST is payable on advance received for supply of goods and services taxable under forward charge.

Do you agree with the statement? Support your answer with legal provisions. (MTP 5 Marks Sep '23)

Answer 5

The statement is not correct. While GST is payable on advance received for supply of services taxable under forward charge, the same is not payable in case of advance received for supply of goods taxable under forward charge.

As per section 13 of the CGST Act, 2017, the time of supply of services taxable under forward charge is –

- Date of issue of invoice or date of receipt of payment, whichever is earlier, if the same is issued within 30 days from the date of supply of service;
OR
 - Date of provision of service or date of receipt of payment, whichever is earlier, if the invoice is not issued within 30 days from the date of supply of service.
- Thus, in case of services, if the supplier receives any payment before the provision of service or before the issuance of invoice for such service, the time of supply gets fixed at that point in time and the liability to pay tax on such payment arises. However, the tax can be paid by the due date prescribed with reference to such time of supply.

As regards time of supply of goods taxable under forward charge is concerned, Notification No. 66/2017 CT dated 15.11.2017 provides that a registered person (excluding composition supplier) should pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) of the CGST Act, 2017, i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31 of the CGST Act, 2017. Therefore, in case of goods, tax is not payable on receipt of advance payment.

Question 6

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

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

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

You are required to determine the time of supply of the readymade garments supplied by Mehra Sons to Subhadra elaborating the relevant provisions under the GST law. (MTP 4 Marks, March'18)

Answer 6

Time of supply of goods is the earlier of the following two dates:

- Date of issue of invoice/last date on which the invoice is required to be issued
- Date of receipt of payment.

Further, date of receipt of payment is earlier of date of recording the payment in books of account and date of crediting of payment in bank account [Section 12(2) of the CGST Act, 2017].

In the given case,

Date of invoice: 3rd December, 20XX

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Date of recording payment in books of account: 20th December, 20XX
 Date of crediting in the bank account: 21st December, 20XX
 Therefore, the date of receipt of payment will be 20th December, 20XX (earlier of two dates namely, date of recording the payment in books of account and date of crediting of payment in bank account). However, since the invoice date is earlier than date of payment, the time of supply will be 3rd December, 20XX.

Question 7

Food meal coupons are sold to a company on 9th August for being distributed to the employees of the said company. The coupons are valid for six months and can be used against purchase of food items. The employees use them in various stores for purchases of various edible items on different dates throughout the six months. What is the date of supply of the coupons? (MTP 4 Marks, Oct'18)

Answer 7

Section 12(4) of CGST Act, 2017 provides that in case of supply of vouchers by a supplier, the time of supply shall be the date of issue of invoice, if the supply is identifiable at that point; or the date of redemption of vouchers, in all other cases. As the coupons can be used for a variety of food items, which are taxed at different rates, the supply cannot be identified at the time of purchase of the coupons. Therefore, the time of supply of the coupons is the date of their redemption in terms of section 12(4) of CGST Act.

Question 8

Discuss the provisions relating to time of supply of goods that are taxable under reverse charge? (MTP 5 Marks, Oct'19)

Answer 8

The time of supply of goods on which GST is payable on reverse charge basis under sub-sections (3) and (4) of section 9 of CGST Act is determined in terms of section 12(3)(a), (b) and (c), as follows: The time of supply for such goods will be the earliest of the following dates:

- Date on which the goods are received, or
- Date on which payment is recorded in the books of account of the recipient, or the date on which the same is debited in his bank account, whichever is earlier, or
- Date immediately following 30 days from the date of issue of invoice (or document by some other name in lieu of invoice) by the supplier.

If it is not possible to determine the time of supply by using these parameters, then the time of supply will be the date of entry of goods in the books of account of the recipient of supply.

Question 9

Mansh & Vansh Trading Company, a registered supplier, is liable to pay GST under forward charge. It has furnished the following information:

- (i) Goods were supplied on 3rd October
- (ii) Invoice was issued on 5th October
- (iii) Payment received on 9th October

Determine the time of supply of goods for the purpose of payment of tax. (PYP 4 Marks May'18)

Answer 9

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a), i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

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Further, a registered person is required to issue a tax invoice before or at the time of removal of goods for supply to the recipient. Thus, in the given case, the invoice for supply of goods should have been issued on or before the removal of goods i.e., on 3rd October.

However, since the invoice has not been issued within the prescribed time, the time of supply for the purpose of payment of tax will be the last date on which the invoice is required to be issued i.e., 3rd October.

Question 10

Modern Security Co. provides service of testing of electronic devices. In one case, it tested a batch of devices on 4th and 5th September but could not raise invoice till 19th November because of some dispute about the condition of the devices on return. The payment was made in December. What is the method to fix the time of supply of the service? (MTP 4 Marks, Oct'20)

Answer 10

The time of supply of services, if the invoice is not issued in time, is the date of payment or the date of provision of service, whichever is earlier [Section 13(2)(b)]. In this case, the service is provided on 5th September but not invoiced within the prescribed time limit. Therefore, 5th September, the date of provision of service, being earlier than the date of payment, will be the time of supply.

Question 11

Mr. Mayank provides Continuous Supply of Services (CSS) to M/s. Omega Limited. He furnishes the following further information:

- (i) **Date of commencement of Providing CSS** 01-10-20XX
- (ii) **Date of completion of Providing CSS** 31-01-20XY
- (iii) **Date of receipt of payment by Mr. Mayank** 30-03-20XY

Determine the time of issue of invoice as per provisions of CGST Act, 2017, in the following circumstances:

- (i) **If no due date for payment is agreed upon by both under the contract of CSS.**
- (ii) **If payment is linked to the completion of service.**
- (iii) **If M/s. Omega Limited has to make payment on 25-03-20XY as per the contract between them. (MTP 3 Marks, March'19, PYP 5 Marks Nov '18)**

Answer 11

Where the due date of payment is not ascertainable from the contract, the invoice shall be issued before or at the time when the supplier of service receives the payment.

Thus, in the given case, the invoice should be issued on or before 30.03.20XY (date of receipt of payment by Mr. Mayank).

- (i) If payment is linked to the completion of an event, the invoice should be issued on or before the date of completion of that event. Since in the given case payment is linked to the completion of service, invoice should be issued on or before 31.01.20XY (date of completion of service).
- (ii) Where the due date of payment is ascertainable from the contract, the invoice should be issued on or before the due date of payment.
- (iii) If M/s. Omega Limited has to make payment on 25.03.20XY as per the contract between them, the invoice should be issued on or before 25.03.20XY.

Question 12

Gupta & Sons, a registered supplier, paying tax under normal scheme is a wholesale supplier of ready-made garments located in Bandra, Mumbai. On 5th September, 20XX, Mohan, owner of Charming Boutique located in Dadar, Mumbai, approached Gupta & Sons for supply of a consignment of customized dresses for ladies and kids.

Paper 3 - Taxation

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

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

You are required to determine the time of supply of the readymade garments supplied by Gupta & Sons to Mohini elaborating the relevant provisions under the GST law. (MTP 4 Marks, Aug'18)

Answer 12

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) of CGST Act, 2017 i.e., date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

Therefore, the time of supply of goods is 3rd December which is the date on which the invoice for the consignment was issued.

Question 13

M/s Shubhank Associates, a partnership firm, provided recovery agent services to Neelkanth Credits Ltd., a non-banking financial company and a registered supplier, on 15 th January. Invoice for the same was issued on 7th February and the payment was made on 18th April by Neelkanth Credits Ltd. Bank account of the company was debited on 20th April.

Determine the following:

- (i) **Person liable to pay GST**
- (ii) **Time of supply of service (PYP 4 Marks, March'21)**

Answer 13

- (i) Tax on services supplied by a recovery agent to, inter alia, a non- banking financial company (NBFC) is payable under reverse charge by such non-banking financial company. Therefore, in the given case, person liable to pay GST is the NBFC - Neelkanth Credits Ltd.
- (ii) As per section 13(3) of the CGST Act, the time of supply of service on which GST is payable under reverse charge is earlier of the following: -
 - Date of payment as entered in the books of account of the recipient (18 th April) or the date on which the payment is debited in his bank account (20 th April), whichever is earlier;
 - Date immediately following 60 days since issue of invoice by the supplier, i.e. 9 th April. Thus, time of supply of service is 9th April.

Question 14

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

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

Assume the rates of taxes to be as under:-

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Paper 3 - Taxation

Particulars	Rate
CGST	9%
SGST	9%
IGST	18%

You are required to compute GST [CGST & SGST/IGST, as the case may be] payable for the month of November, 20XX along with time of supply of the aforementioned activities. (RTP May '18)

Answer 14

Computation of GST payable for the month of November, 20XX

S. No.	Particulars	Time of supply of services	CGST (₹)	SGST (₹)	IGST (₹)	Interest (₹)
(i)	Services from an advocate in Delhi	06.09.20XX [Note-1 & 3]	11,250	11,250	-	244 [Note-4]
(ii)	Director's Sitting fee	20.11.20XX [Note-2 & 3]	-	-	13,500	

Notes:-

- Services supplied by an individual advocate to any business entity located in the taxable territory is a notified service on which tax is payable on reverse charge basis by the recipient of services.
- Services supplied by a director of a company to the said company is a notified service on which tax is payable on reverse charge basis by the recipient of services.
- As per section 13 of the CGST Act, 2017, the time of supply of services in case of reverse charge is earliest of the following:-

- Date of payment as entered in the books of account of the recipient or the date on which the payment is debited to his bank account, whichever is earlier, or
- Date immediately following 60 days since the date of issue of invoice.

Provisions of time of supply as provided under section 13 of the CGST Act are also applicable for inter-State supply vide section 20 of the IGST Act.

In view of the aforesaid provisions, the time of supply and due date for payment of tax in the given cases would be determined as under:

- Time of supply of the services is the date immediately following 60 days since the date of issue of invoice, i.e. 06.09.20XX. The due date for payment of tax is 20.10.20XX with return of September, 20XX.
- Time of supply of service is 20.11.20XX and due date for payment of tax is 20.12.20XX with return of December, 20XX.

- The due date for payment of tax in case (i) is 20.10.20XX with return of September, 20XX. However, the payment of tax is actually made on 11.11.20XX. Thus, payment of tax is delayed by 22 days.

In case of delayed payment of tax, interest @ 18% per annum is payable for the period for which the tax remains unpaid starting from the day succeeding the day on which such tax was due to be paid [Section 50 of the CGST Act, 2017 read with Notification No. 13/2017 CT dated 28.06.2017]. In view of the same, in the given case, interest payable would be as follows:

Amount of interest payable = ₹ 22,500 × 18% × 22/365 = ₹ 244 (rounded off)

Question 15

Mahak Sons is a registered supplier of electronic items and pays GST under regular scheme. On 15th July 20XX, Mahak Sons received an order from Sunder Trader for supply of a consignment of electronic items. Mahak Sons gets the consignment ready by 20th July 20XX. The invoice for the consignment was issued the next day, 21st July 20XX. Sunder Trader could not collect the consignment immediately. Sunder Trader collects the consignment from the premises of Mahak Sons on 30th July 20XX and hands over the cheque towards

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Paper 3 - Taxation

payment on the same date. The said payment is entered in the books of accounts of Mahak Sons on 31st July, 20XX and amount is credited in their bank account on 1st August 20XX.

You are required to determine the time of supply of the electronic items for the purpose of payment of tax. (RTP May '20)

Answer 15

As per section 12(2) of the CGST Act, 2017, the time of supply in respect of goods shall be the earlier of the following two dates:-

- (a) Date of issue of invoice/last date on which the invoice is required to be issued as per section 31 of the CGST Act, 2017
- (b) Date of receipt of payment

Further, as per Notification No. 66/2017 CT dated 15.11.2017, a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) i.e., date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31. As per section 31(1), the invoice needs to be issued either before or at the time of removal (where supply involves movements of goods) of goods/delivery of goods/ making goods available to the recipient.

In this case, the invoice is issued before the removal of the goods and is thus, within the time limit prescribed under section 31(1). Therefore, time of supply for the purpose of payment of tax is the date of issue of invoice, which is 21st July, 20XX.

Question 16

Know & Grow Publishers, a registered dealer in India, paid an advance of ₹ 50,000 to Mr. Ganatra, an author, for the copyright covered under Section 13(1)(a) of the Copyright Act, 1957, of his original literary work on 5-9-2023. It made the balance payment of ₹ 1,50,000 on 12-12-2023. You are required to determine the time of supply, if Mr. Ganatra raised the invoice on:

- (I) 6-10-2023, or
- (II) 17-12-2023 (PYP 4 Mark, Nov'19)

Answer 16

GST on supply of services by an author by way of transfer or permitting the use or enjoyment of a copyright covered under section 13(1)(a) of the Copyright Act, 1957 relating to original literary works to a publisher is payable under reverse charge by such publisher, i.e. Know & Grow Publishers.

The time of supply of service, on which GST is payable under reverse charge, is earlier of the following:

- (a) Date of payment as entered in the books of account of the recipient or date on which payment is debited from the bank account, whichever is earlier
- or
- (b) 61st day from the date of issue of invoice by the supplier
 - (i) If the invoice is issued on 06.10.2023, time of supply is as under:
 - For the payment of ₹ 50,000: 05.09.2023 [earlier of date of payment and 61st day from date of issue of invoice]
 - For the payment of ₹ 1,50,000: 06.12.2023 [earlier of date of payment and 61st day from date of issue of invoice]
 - (ii) If the invoice is issued on 17.12.2023, time of supply is as under:
 - For the payment of ₹ 50,000: 05.09.2023 [earlier of date of payment and 61st day from date of issue of invoice]
 - For the payment of ₹ 1,50,000: 12.12.2023 [earlier of date of payment and 61st day from date of issue of invoice]

Question 17

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Paper 3 - Taxation

M/s Mansh & Vansh Trading Company, a registered supplier, is liable to pay GST under forward charge. Determine the time of supply from the following information furnished by it:

(iii) Goods were supplied on 03-10-2023

(iv) Invoice was issued on 05-10-2023

(v) Payment received on 09-10-2023 (PYP 4 Marks, May'18)

Answer 17

As per section 12 of CGST Act, 2017, the time of supply of goods, tax on which is payable under forward charge, is the earlier of the following two dates:

- Date of issue of invoice/last date on which the invoice is required to be issued
- Date of receipt of payment⁴ i.e., the date on which the payment is recorded in the books of account of the supplier or date on which the payment is credited to the supplier's bank account, whichever is earlier

Further, a registered person is required to issue a tax invoice before or at the time of removal of goods for supply to the recipient. Thus, in the given case, the invoice for supply of goods should have been issued on or before the removal of goods i.e., on 03-10-2023.

However, since the invoice has not been issued within the prescribed time, the time of supply will be the last date on which the invoice is required to be issued (03-10-2023) or date of receipt of payment (09-10-2023), whichever is earlier. Thus, the time of supply of the goods will be 03-10-2023.

⁴ It has been assumed that the aggregate turnover of Mansh and Vansh Trading Company in the preceding financial year is more than ` 1.5 crore.

Question 18

Mr. Mayank provides Continuous Supply of Services (CSS) to M/s. Omega Limited. He furnishes the following further information:

(iv) Date of commencement of Providing CSS 01-10-20XX

(v) Date of completion of Providing CSS 31-01-20XY

(vi) Date of receipt of payment by Mr. Mayank 30-03-20XY

Determine the time of issue of invoice as per provisions of CGST Act, 2017, in the following circumstances:

- If no due date for payment is agreed upon by both under the contract of CSS.
- If payment is linked to the completion of service.
 - If M/s. Omega Limited has to make payment on 25-03-20XY as per the contract between them. (PYP 5 Marks Nov '18)

Answer 18

Where the due date of payment is not ascertainable from the contract, the invoice shall be issued before or at the time when the supplier of service receives the payment.

Thus, in the given case, the invoice should be issued on or before 30.03.20XY (date of receipt of payment by Mr. Mayank).

- If payment is linked to the completion of an event, the invoice should be issued on or before the date of completion of that event. Since in the given case payment is linked to the completion of service, invoice should be issued on or before 31.01.20XY (date of completion of service).
- Where the due date of payment is ascertainable from the contract, the invoice should be issued on or before the due date of payment.
- If M/s. Omega Limited has to make payment on 25.03.20XY as per the contract between them, the invoice should be issued on or before 25.03.20XY.

Section - B

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Paper 3 - Taxation

Question 1

Explain the significance of time of supply under GST law.

Answer 1

GST is payable on supply of goods or services. Time of supply indicates the point in time when the liability to pay tax arises. However, it is important to note that though the liability to pay tax arises at the time of supply, the same can be paid to the Government by the due date prescribed with reference to the said 'time of supply'. The CGST Act provides separate provisions for time of supply for goods and services vide sections 12 and 13.

Question 2

GST is payable on advance received for supply of goods and services taxable under forward charge. Do you agree with the statement? Support your answer with legal provisions.

Answer 2

The statement is not correct. While GST is payable on advance received for supply of services taxable under forward charge, the same is not payable in case of advance received for supply of goods taxable under forward charge.

As per section 13, the time of supply of services taxable under forward charge is –

- Date of issue of invoice or date of receipt of payment, whichever is earlier, if the same is issued within 30 days from the date of supply of service;
- OR**
- Date of provision of service or date of receipt of payment, whichever is earlier, if the invoice is not issued within 30 days from the date of supply of service.
- Thus, in case of services, if the supplier receives any payment before the provision of service or before the issuance of invoice for such service, the time of supply gets fixed at that point in time and the liability to pay tax on such payment arises. However, the tax can be paid by the due date prescribed with reference to such time of supply. As regards time of supply of goods taxable under forward charge is concerned, Notification No. 66/2017 CT dated 15.11.2017 provides that a registered person (excluding composition supplier) should pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a), i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31. Therefore, in case of goods, tax is not payable on receipt of advance payment.

Question 3

Determine the time of supply in the following cases assuming that GST is payable under reverse charge:

S. No.	Date of Receipt of goods	Date of payment by the recipient of goods	Date of issue of invoice by the supplier of goods
(i)	July 1	August 10	June 29
(ii)	July 1	June 25	June 29
(iii)	July 1	Part payment made on June 30 and balance amount paid on July 20	June 29
(iv)	July 5	Payment is entered in the books of account on June 28 and debited in recipient's bank account on June 30	June 1

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Paper 3 - Taxation

(v)	July 1	Payment is entered in the books of account on June 30 and debited in recipient's bank account on June 26	June 29
(vi)	August 1	August 10	June 29

Answer 3

S. No.	Date of receipt of goods	Date of payment by the recipient of goods	Date of issue of invoice by the supplier of goods	Date immediately following 30 days from the date of invoice	Time of supply of goods [Earlier of (1), (2) & (4)]
	(1)	(2)	(3)	(4)	(5)
(i)	July 1	August 10	June 29	July 30	July 1
(ii)	July 1	June 25	June 29	July 30	June 25
(iii)	July 1	Part payment made on June 30 and balance amount paid on July 20	June 29	July 30	June 30 for part payment made and July 1 for balance amount
(iv)	July 5	Payment is entered in the books of account on June 28 and debited in recipient's bank account on June 30	June 1	July 2	June 28 (i.e., when payment is entered in the books of account of the recipient)
(v)	July 1	Payment is entered in the books of account on June 30 and debited in recipient's bank account on June 26	June 29	July 30	June 26 (i.e., when payment is debited in the recipient's bank account)
(vi)	August 1	August 10	June 29	July 30	July 30 (i.e., 31st day from issuance of invoice)

Question 4

Determine the time of supply in the following cases assuming that GST is payable under reverse charge:

S. N	Date of payment by the recipient for supply of services	Date of issue of invoice by the supplier of services
(i)	August 10	June 29
(ii)	August 10	June 1
(iii)	Part payment made on June 30 and balance amount paid on September 1	June 29

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(iv)	Payment is entered in the books of account on June 28 and debited in recipient's bank account on June 30	June 1
(v)	Payment is entered in the books of account on June 30 and debited in recipient's bank account on June 26	June 29

Answer 4

S. No.	Date of payment by the recipient for supply of services	Date of issue of invoice by the supplier of services	Date immediately following 60 days from invoice	Time of supply of goods [Earlier of (1) & (3)]
	(1)	(2)	(3)	
(i)	August 10	June 29	August 29	August 10
(ii)	August 10	June 1	August 1	August 1
(iii)	Part payment made on June 30 and balance amount paid on September 1	June 29	August 29	June 30 for part payment and August 29 for balance amount
(iv)	Payment is entered in the books of account on June 28 and debited in recipient's bank account on June 30	June 1	August 1	June 28 (i.e. when payment is entered in the books of account of the recipient)
(v)	Payment is entered in the books of account on June 30 and debited in recipient's bank account on June 26	June 29	August 29	June 26 (i.e. when payment is debited in the recipient's bank account)

Question 5

Kabira Industries Ltd engaged the services of a transporter for road transport of a consignment on 17th June and made advance payment for the transport on the same date, i.e. 17th June. However, the consignment could not be sent immediately on account of a strike in the factory, and instead was sent on 20th July. Invoice was received from the transporter on 22nd July. What is the time of supply of the transporter's service?

Answer 5

Time of supply of service taxable under reverse charge is the earlier of the following two dates in terms of section 13(3):

- Date of payment
- 61st day from the date of issue of invoice

In this case, the date of payment precedes 61st day from the date of issue of invoice by the supplier of service. Hence, the date of payment, i.e. 17th June, will be treated as the time of supply of service [Section 13(3)(a)].

Question 6

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Paper 3 - Taxation

Raju Pvt Ltd. receives the order and advance payment on 5th January for carrying out an architectural design job. It delivers the designs on 23rd April. By oversight, no invoice is issued at that time, and it is issued much later, after the expiry of prescribed period for issue of invoice. When is the time of supply of service?

Answer 6

Since the invoice has not been issued within the prescribed time period, time of supply of service will be the earlier of the following two dates in terms of section 13(2)(b):

- Date of provision of service
- Date of receipt of payment

The payment was received on 5th January and the service was provided on 23rd April. Therefore, the date of payment, i.e. 5th January is the time of supply of the service in this case.

Question 7

Investigation shows that 150 cartons of ceramic capacitors were dispatched on 2nd August but no invoice was raised and the transaction (dispatch of cartons) were not entered in the accounts. There was no evidence of receipt of payment. What is the time of supply of 150 cartons for the purpose of payment of tax?

Answer 7

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a), i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31. In this case since the invoice has not been issued, the time of supply for the purpose of payment of tax will be the last date on which the invoice is required to be issued.

The invoice for supply of goods must be issued on or before the dispatch of goods, i.e. on 2nd August. Therefore, the time of supply for the purpose of payment of tax for the goods will be 2nd August, the date when the invoice should have been issued.

Question 8

An order is placed on Ram & Co. on 18th August for supply of a consignment of customized shoes. Ram & Co. gets the consignment ready and informs the customer and issues the invoice on 2nd December. The customer collects the consignment from the premises of Ram & Co. on 7th December and electronically transfers the payment on the same date, which is entered in the accounts on the next day, 8th December. What is the time of supply of the shoes for the purpose of payment of tax?

Answer 8

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a), i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

In this case, the invoice is issued before the removal of the goods and is thus, within the time limit prescribed under section 31(1). Therefore, the time of supply for the purpose of payment of tax is the date of issue of invoice, which is 2nd December.

Question 9

Meal coupons are sold to a company on 9th August for being distributed to the employees of the said company. The coupons are valid for six months and can be used against purchase of food items. The employees use them in various stores for purchases of various edible items on different dates throughout the six months. What is the date of supply of the coupons?

Answer 9

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Paper 3 - Taxation

As the coupons can be used for a variety of food items, which are taxed at different rates, the supply cannot be identified at the time of purchase of the coupons. Therefore, the time of supply of the coupons is the date of their redemption in terms of section 12(4).

Question 10

A firm of advocates issues invoice for services to ABC Ltd. on 17th Feb. The payment is contested by ABC Ltd. on the ground that on account of negligence of the firm, the company's case was dismissed by the Court for non-appearance, which necessitated further appearance for which the firm is billing the company. The dispute drags on and finally payment is made on 3rd November. Identify the time of supply of the legal services.

Answer 10

Tax on services supply by a firm of advocates by way of legal services to any business entity is payable under reverse charge by such firm of advocates. Time of supply of services that are taxable under reverse charge is earliest of the following two dates in terms of section 13(3):

- Date of payment [3rd November]
- 61st day from the date of issue of invoice [19th April]

The date of payment comes subsequent to the 61st day from the issue of invoice by the supplier of service. Therefore, the 61st day from the date of supplier's invoice has to be taken as the time of supply. This fixes 19th April as the time of supply.

Question 11

Modern Security Co. provides service of testing of electronic devices. In one case, it tested a batch of devices on 4th and 5th September but could not raise invoice till 19th November because of some dispute about the condition of the devices on return. The payment was made in December.

What is the method to fix the time of supply of the service?

Answer 11

The time of supply of services, if the invoice is not issued in time, is the date of payment or the date of provision of service, whichever is earlier [Section 13(2)(b)]. In this case, the service is provided on 5th September but not invoiced within the prescribed time limit. Therefore, 5th September, the date of provision of service, being earlier than the date of payment, will be the time of supply.

Question 12

XYZ & Co., a firm of Chartered Accountants, issued invoice for services rendered to Mr. A on 7th September. Determine the time of supply in the following independent cases:

- (1) **The provision of service was completed on 1st August and payment was received on 28th September.**
- (2) **The provision of service was completed on 14th August and payment was received on 28th September.**
- (3) **Mr. A made the payment on 3rd August. However, provision of service was remaining to be completed at that time.**
- (4) **Mr. A made the payment on 15th September. However, provision of service was remaining to be completed at that time.**

Answer 12

The time of supply of services is the date of issue of invoice if the same is issued within 30 days from the date of supply of service OR the date of receipt of payment, whichever is earlier [Section 13(2)(a)].

In case the invoice is not issued within 30 days from the date of supply of service, time of supply is the date of provision of service OR the date of receipt of payment, whichever is earlier [Section 13(2)(b)].

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Paper 3 - Taxation

In accordance with the aforesaid provisions, the time of supply in the four independent cases will be:

- (1) 1st August since the invoice is not issued within 30 days of supply of service.
- (2) 7th September since the invoice is issued within 30 days of supply of service and the payment is received after the issuance of invoice.
- (3) 3rd August viz., earlier of date of issuance of invoice (7th September) or date of receipt of payment (3rd August)
- (4) 7th September viz., earlier of date of issuance of invoice (7th September) or date of receipt of payment (15th September)

Question 13

M/s Pranav Associates, a partnership firm, provided recovery agent services to Newtron Credits Ltd., a non-banking financial company and a registered supplier, on 15th January. Invoice for the same was issued on 7th February and the payment was made on 18th April by Newtron Credits Ltd. Bank account of the company was debited on 20th April.

Determine the following:

- (i) **Person liable to pay GST**
- (ii) **Time of supply of service**

Answer 13

- (i) Tax on services supplied by a recovery agent to, inter alia, a non-banking financial company (NBFC) is payable under reverse charge by such non-banking financial company.
Therefore, in the given case, person liable to pay GST is the NBFC - Newton Credits Ltd.
- (ii) As per section 13(3), the time of supply of service on which GST is payable under reverse charge is earlier of the following:-
 - a. Date of payment as entered in the books of account of the recipient (18th April) or the date on which the payment is debited in his bank account (20th April), whichever is earlier;
 - b. Date immediately following 60 days since issue of invoice by the supplier, i.e. 9th April.

Thus, time of supply of service is 9th April.

Question 14

Mr. X supplied goods for ₹ 50,000 to its customer Miss Diyana on 1st January on the condition that payment for the same will be made within a week. However, Miss Diyana made payment for the said goods on 2nd February and thus, paid interest amounting to ₹ 2,000.

What is the time of supply with regard to addition in the value by way of interest in lieu of delayed payment of consideration? (Old & New)

Answer 14

As per section 12(6), the time of supply with regard to an addition in value on account of interest, late fee or penalty or delayed payment of consideration is the date on which the supplier received such additional consideration.

Thus, time of supply in respect of interest would be the date on which the supplier has received such additional consideration, i.e. 2nd February.

Question 15

Mansh & Vansh Trading Company, a registered supplier, is liable to pay GST under forward charge. It has furnished the following information:

- (iv) **Goods were supplied on 3rd October**
- (v) **Invoice was issued on 5th October**
- (vi) **Payment received on 9th October**

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Determine the time of supply of goods for the purpose of payment of tax.

Answer 15

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a), i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

Further, a registered person is required to issue a tax invoice before or at the time of removal of goods for supply to the recipient. Thus, in the given case, the invoice for supply of goods should have been issued on or before the removal of goods i.e., on 3rd October.

However, since the invoice has not been issued within the prescribed time, the time of supply for the purpose of payment of tax will be the last date on which the invoice is required to be issued i.e., 3rd October.

Question 16 (Illustration)

A machine has to be supplied at site. It is done by sourcing various components from vendors and assembling the machine at site. The details of the various events are:

17th September	Purchase order with advance of ₹ 50,000 is received for machine worth ₹ 12 lakh and entry duly made in the seller's books of account
20th October	The machine is assembled, tested at site, and accepted by buyer
23rd October	Invoice raised
4th November	Balance payment of ₹ 11,50,000 received

Determine the time of supply(ies) in the above scenario for the purpose of payment of tax.

Answer 16

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) i.e., date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

Therefore, the time of supply for the purpose of payment of tax for the entire amount of ₹ 12,00,000 is 20th October which is the date on which the goods were made available to the recipient as per section 31(1)(b), and the invoice should have been issued on this date [Section 12(2)(a)].

Question 17 (Illustration)

Gas is supplied by a pipeline to the recipient. The supply is to be made for a period of one year. Monthly payments are to be made by the recipient as per the contract. The details of the payment made are:

July 5, August 5, September 5	Payments of ₹ 2 lakh made in each month
--------------------------------------	--

Determine the time of supply for the purpose of payment of tax. (Old & New)

Answer 17

As per Notification No. 66/2017 CT dated 15.11.2017, a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a), i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31. As per section 31(4), in case of continuous supply of goods, where successive statements of accounts or successive payments are involved, the invoice is issued before or at the time of each such statement is issued or, as the case may be, each such payment is received. Therefore,

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invoices should be issued for ₹ 2 lakh each on or before July 5, August 5 and September 5, when monthly payments of ₹ 2 lakh are received.

Thus, assuming that the invoice is issued on July 5, August 5 and September 5, the time of supply for the purpose of payment of tax will be July 5, August 5 and September 5 respectively for goods valued at ₹ 2 lakh each.

Question 18 (Illustration)

Determine the time of supply from the given information.

May 4	Supplier invoices goods taxable on reverse charge basis to Bridge & Co. (30 days from the date of issuance of invoice elapse on June 3)
May 12	Bridge & Co receives the goods
May 30	Bridge & Co makes the payment

Answer 18

Here, May 12 will be the time of supply, being the earliest of the three stipulated dates namely, receipt of goods, date of payment and date immediately following 30 days of issuance of invoice [Section 12(3)]. (Here, date of invoice is relevant only for calculating thirty days from that date.)

Question 19 (Illustration)

Determine the time of supply from the given information.

May 4	Supplier invoices goods taxable on reverse charge basis to Pillar & Co. (30 days from the date of issuance of invoice elapse on June 3)
June 12	Pillar & Co receives the goods, which were held up in transit
July 3	Payment made for the goods

Answer 19

Here, June 4, 31st day from the date of supplier's invoice, will be the time of supply, being the earliest of the three stipulated dates namely, receipt of goods, date of payment and date immediately following 30 days of issuance of invoice [Section 12(3)].

Question 20 (Illustration)

Determine the time of supply from the following particulars:

6th May	Booking of convention hall, sum agreed ₹ 15000, advance of ₹ 3000 received
15th September	Function held in convention hall
27th October	Invoice issued for ₹ 15000, indicating balance of ₹ 12000 payable
3rd November	Balance payment of ₹ 12000 received

Answer 20

As per section 31(2) read with rule 47 of CGST Rules, the tax invoice is to be issued within 30 days of supply of service. In the given case, the invoice is not issued within the prescribed time limit. As per section 13(2)(b), in a case where the invoice is not issued within the prescribed time, the time of supply of service is the date of provision of service or receipt of payment, whichever is earlier.

Therefore, the time of supply of service to the extent of ₹ 3,000 is 6th May as the date of payment of ₹ 3000 is earlier than the date of provision of service. The time of supply of service to the extent of the balance ₹ 12,000 is 15th September which is the date of provision of service.

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Question 21(Illustration)

Investigation shows that ABC & Co carried out service of cleaning and repairs of tanks in an apartment complex, for which the Apartment Owners' Association showed a payment in cash on 4th April to them against work of this description. The dates of the work are not clear from the records of ABC & Co. ABC & Co have not issued invoice or entered the payment in their books of account. (Old & New)

Answer 21

The time of supply cannot be determined vide the provisions of clauses (a) and (b) of section 13(2) as neither the invoice has been issued nor the date of provision of service is available as also the date of receipt of payment in the books of the supplier is also not available. Therefore, the time of supply will be determined vide clause (c) of section 13(2) i.e., the date on which the recipient of service shows receipt of the service in his books of account. Thus, time of supply will be 4th April, the date on which the Apartment Owners' Association records the receipt of service in its books of account.

Excess payment up to ₹ 1000: Option of taking invoice date as time of supply

In terms of the proviso to sub-section (2) of section 13, for a payment of upto ₹ 1,000 received in excess of the invoice value, the supplier can choose to take the date of invoice issued with respect to such excess amount as the time of supply of services in relation to this excess value. This provision facilitates the supplier to defer payment of tax on small amounts typically received by him in excess of the invoice amount.

Question 22(Illustration)

Determine the time of supply from the given information. (Assume that service being supplied is taxable under reverse charge) (Old & New)

May 4	The supplier of service issues invoice for service provided. There is a dispute about amount payable, and payment is delayed.
August 21	Payment made to the supplier of service

Answer 22

Here, July 4 will be the time of supply, being the earliest of the two stipulated dates namely, date of payment and date immediately following 60 days since issue of invoice.

Question 23(Illustration)

Determine the time of supply from the given information. (Old & New)

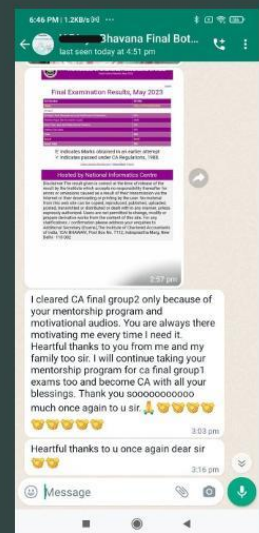
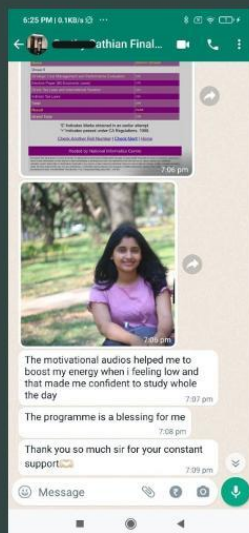
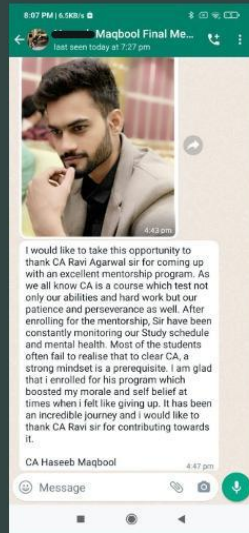
May 4	A German company issues email informing its associated enterprise, ABC Ltd. of the cost of technical services provided to it, which was recorded in ABC Ltd.'s books on May 1
July 2	ABC Ltd transfers the amount to the account of the German company

Answer 23

Here, May 1 will be the time of supply, being the earlier of the two stipulated dates namely, date of entry in the books of account of the recipient of supply or the date of payment, in terms of second proviso to section 13(3).

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Chapter 7 Value of Supply

Attempt wise Distribution

Attem pts	May' 18	Nov '18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP								Q2				
RTP					Q1, Q3							
Q & A												
MTP	Q15	Q10, Q11					Q14	Q12, Q13	Q8, Q9	Q16, Q17	Q18	
PYP	Q4	Q21	Q26		Q5			Q3	Q23	Q2	Q1, Q24	
RTP			Q7	Q22				Q19		Q25	Q6	Q20

Section – A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Pradeep Traders, registered in Haryana, sold goods for ₹ 2,05,000 to Balram Pvt. Ltd. registered in Uttar Pradesh (GST is leviable @ 5% on said goods). As per the terms of sales contract, Pradeep Traders has to deliver the goods at the factory of Balram Pvt. Ltd. For this purpose, Pradeep Traders has charged freight of ₹ 2,400 from Balram Pvt. Ltd. GST is leviable @ 12% on freight. What would be the net GST liability to be paid in cash in this case assuming that the amounts given herein are exclusive of GST?
- (a) IGST-₹ 37,332
 (b) IGST-₹ 10,370
 (c) CGST-₹ 18,666 and SGST-₹ 18,666
 (d) CGST-₹ 5,185 and SGST-₹ 5,185 (RTP Nov '20)

Ans: (b)

2. Discount given after the supply has been effected is deducted from the value of taxable supply, if -
- (i) such discount is given as per the agreement entered into at/or before the supply
 (ii) such discount is linked to the relevant invoices
 (iii) proportionate input tax credit is reversed by the recipient of supply
- (a) (i)
 (b) (i) and (ii)
 (c) (ii) and (iii)
 (d) (i), (ii) and (iii) (MTP 2 Marks, Oct'21, MTP 1 Mark Apr'19)

Ans: (d)

3. With reference to the provisions relating to transaction value under section 15 of the CGST Act, 2017, which of the following is not correct?

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- (e) Central excise duty will not be included in transaction value for supply of tobacco.
 - (f) Municipal taxes paid by tenant will be included in transaction value for supply of renting service.
 - (g) Entertainment tax included in movie ticket will form part of transaction value.
 - (h) Customer makes payment of freight which is payable by the supplier, directly to the service provider. However, supplier does not include this amount in the invoice. Such amount will be included in transaction value of the supplier.
- (RTP May '20)**

Ans: (a)

Question & Answers

Question 1

Mr. Jayesh, a registered supplier of Mumbai, received the following amounts in respect of the various activities undertaken by him during the month of October, 2024.

S. No	Particulars	Amount (₹)
(i)	Commission received as a recovery agent from a Non-Banking Finance Company (NBFC)	80,000
(ii)	Actionable claim received from normal business debtors	10,50,000
(iii)	Amount received from ABC Ltd. for performance of classical dance in one program.	1,74,500
(iv)	Business assets (old computers) given to a friend free of cost, the market value of all the computers was ₹ 51,000. No input tax credit has been availed on such computers when used for business.	No amount Charged
(v)	Consideration received for one month rent from a registered individual person for renting of residential dwelling for use as residence.	15,200

Details of Input services:

S. No.	Particulars	Amount (₹)
	Paid to an unregistered Goods Transport agency for various consignments of transportation of goods by road. (Each individual consignment in a single carriage was of less than ₹ 1,450.)	15,100

Notes:

- (i) All the amount stated above in both the tables are exclusive of GST, wherever applicable.
 - (ii) Aggregate turnover of Mr. Jayesh in previous year was ₹ 42,00,000.
- You are required to compute Gross value of supplies, on which GST to be paid by Mr. Jayesh for the month of October, 2024. (PYP 6 Marks May '23)

Answer 1

Computation of gross value of taxable supply on which GST is to be paid by Mr. Jayesh

Particulars	Amount (₹)
-------------	---------------

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Commission received as a recovery agent from Non-Banking Financial Company [Tax is payable by NBFC under reverse charge.]	-
Actionable claim received from normal business debtors [No tax is payable as actionable claims other than lottery, betting and gambling are covered under Schedule III, i.e. they are neither supply of goods nor supply of services.]	-
Amount received from ABC Ltd. for performance of classical dance [Taxable since consideration for classical dance performance exceeds ₹ 1,50,000.]	1,74,500
Business assets given free of cost [Not a supply as it is made without consideration and not covered in Schedule I because ITC is not availed on the same.]	-
Rent from registered individual person [Tax is payable by the registered individual person under reverse charge ³]	-
Services from unregistered GTA [Tax on services provided by unregistered GTA is payable under reverse charge by Mr. Jayesh being a registered person.]	15,100
Gross value of taxable supply on which GST is to be paid by Mr. Jayesh	1,89,600

³Based on the position of law as existing on 31.10.2022.

Question 2

Ajay Limited, a registered dealer in Patna (Bihar), is engaged in various types of supplies. The company provided the following details for the month of January 2024:

Sl. No.	Particulars			Amount in ₹	
(i)	Outward supply of goods made during the month to various non-related persons:			As given in particular column	
		Particulars	Market value		Transaction Value (₹)
	a.	in the State of Bihar (Intra-State)	3,00,000		4,00,000
b.	to other States (Inter-State)	2,00,000	1,00,000		
(ii)	Services provided to the State Government of Karnataka for conducting a computer training programme for its employees. Total expenditure incurred for the said programme was ₹ 90,000, of which ₹ 63,000 was borne by the State Govt. (Inter-State transaction)			5,00,000	

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(iii)	Stock transfer without consideration to its branch at Gaya (Bihar). Branch has separate GSTN for convenience of accounting and billing. Value under section 15 - ₹ 20,000 (Intra -State)	Nil
(iv)	Intra - State inward supply of various services for use in the course or furtherance of business (30 invoices)	6,50,000

Additional Information:

- (a) All the amounts given above are exclusive of taxes.
- (b) During the course of arranging and filing documents, the accountant of Ajay Limited observed that an invoice for ₹ 30,000 (excluding tax) dated 02.12.2023 was omitted to be recorded in the books of accounts and no payment was made against the same till the end of January 2024. This invoice was issued by Mr. Mukesh of Patna, from whom Ajay Limited had taken cars on rental basis. Invoice included cost of fuel also. (Intra -State transaction).
- (c) Rate of GST applicable on various supplies are as follows:

Nature of supply	CGST	SGST	IGST
Car rental service	2.5%	2.5%	5%
All other inward and outward supplies	9%	9%	18%

- (d) No opening balance of input tax credit exists in the beginning of the month.
- (e) Out of the 30 invoices of inward supply received, 6 invoices with taxable value amounting to ₹ 1,50,000 were e-invoices in which Invoice Reference Number (IRN) was not mentioned. However, all the invoices were duly reflected in GSTR 2B for the month of January 2024, since the suppliers had filed their GSTR-1.
- (f) Subject to the information given above, conditions necessary for claiming ITC were complied with.

You are required to calculate the amount of net GST liability payable in cash by Ajay Limited for the month of January 2024. Brief notes for treatment given for each item should form part of your answer. (PYP 8 Marks Nov '22)

Answer 2

Computation of net GST payable in cash by Ajay Ltd. for the month of January 2024

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Outward intra-State supply of goods made in the State of Bihar [Value of supply is the transaction value of the goods.]	36,000 [4,00,000 × 9%]	36,000 [4,00,000 × 9%]	
Outward supply of goods made to other States [Value of supply is the transaction value of the goods.]			18,000 [1,00,000 × 18%]

Paper 3 - Taxation

Inter-State services provided to State Government of Karnataka for conducting a computer training programme [Not exempt since the State Government has borne less than 75% of total expenditure of the training programme.]			90,000 [5,00,000 × 18%]
Intra-State stock transfer to Gaya Branch with separate registration [Supply of goods between distinct persons in course or furtherance of business qualifies as supply even if made without consideration.]	1,800 [20,000 × 9%]	1,800 [20,000 × 9%]	
Total output tax	37,800	37800	1,08,000
Less: Input Tax Credit [Refer Working Note below] [CGST credit should be utilized for payment of CGST and IGST in that order. Similarly, SGST credit should be utilized for payment of SGST and IGST in that order. ITC of CGST cannot be utilized for payment of SGST and vice versa.]	(37,800) (CGST)		(7,200) (CGST)
		(37,800) (SGST)	(7,200) (SGST)
Net GST payable in cash	Nil	Nil	93,600

Working Note:

Computation of ITC available

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Intra-State inward supply of services [₹ 6,50,000 – ₹1,50,000] [ITC cannot be claimed on the e-invoices without IRN since an e-invoice without IRN is not treated as valid document for claiming ITC.]	45,000 [5,00,000 × 9%]	45,000 [5,00,000 × 9%]	--
Cars taken on rental basis from Mr. Mukesh [Tax on renting of motor car services wherein cost of fuel is included in consideration provided by a non-body corporate to a body corporate and invoice is issued charging CGST/SGST @ 2.5% is payable under reverse charge. Time of supply of such services is 1st February being earlier of date of payment, or date immediately following 60 days since issue of invoice by the supplier. Since the time of supply of renting of motor car services in the given case does not fall in January, tax liability on the same does not arise in said month. Further, ITC on renting of motor car	--	--	--

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services received is blocked since the recipient - Ajay Ltd. is not in the same line of business ¹ .]			
Total ITC available	45,000	45,000	--

¹ It has been most logically assumed that Ajay Ltd. is not engaged renting of cars business.

Question 3

ABC Ltd., a registered supplier in Surat, Gujarat has calculated output net GST liability after adjusting ITC in the books for the month of February 2024:

CGST: ₹ 3,00,000 SGST : ₹ 2,50,000 IGST : ₹ 3,00,000

During the above month, the following additional information is provided by ABC Ltd.:

S. No.	Particulars	Amount (excluding GST) ₹
1	The company had given on hire 5 trucks to one of the transporters of Vadodara (a goods transport agency) for transporting goods for 10 days. The hiring charges for the trucks were ₹ 7,500 per truck per day	3,75,000
2	The company sold goods to X & Co. of Delhi on 6th January 2021 with a condition that interest @ 2% per month will be charged on invoice value if X & Co. failed to make payment within 30 days of the delivery of the goods. Goods were delivered and also the invoice was issued on 6th January 2023. X & Co. paid the consideration for the goods on 20th February along with applicable interest.	5,00,000
3	The company sought legal consultancy services for its business from A & Advocates, a partnership firm of advocates situated at Bhuj, Gujarat.	1,50,000
4	The company ordered 3,000 packets of tools which are to be delivered by the supplier of Delhi via 3 lots of 1,000 packets monthly. The supplier raised the invoice for full quantity in February 2023 and the last lot would be delivered in April 2023.	5,00,000
5	The company supplied 10,000 packets of tools to one of its customer at ₹ 10/- per packet in Gujarat in January 2023. Afterwards, the company re-values it at ₹ 9 per packet in February 2023 and the company issued credit note to the customer for ₹ 1 per packet.	

The rate of GST is 9% CGST, 9% SGST and 18% IGST.

You are required to compute the actual net liability of GST to be paid in cash along with working notes for the month of February 2024. (PYP 8 Marks Dec '21)

Answer 3

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Paper 3 - Taxation

Computation of net GST liability of ABC Ltd. to be paid in cash for February 2021

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Net output GST liability as given		3,00,000	2,50,000	3,00,000
Add: Trucks given on hire to GTA [Services by way of giving a means of transportation of goods on hire to a goods transport agency are exempt.]	3,75,000	--	--	--
Add: Interest on delayed payment of 15 days ¹ (6th February, 2024 to 20th February, 2024) [Includible in value in terms of section 15 of the CGST Act, 2017.]	5,900 [5,90,000 × 2% × 15/30]	--	--	900
Total output tax liability		3,00,000	2,50,000	3,00,900
Less: ITC in respect of legal services paid as reverse charge is available ²	1,50,000	(13,500) [1,50,000 × 9%]	(13,500) [1,50,000 × 9%]	
Net output tax liability (A)		2,86,500	2,36,500	3,00,900
Legal consultancy services received (B) [Tax is payable under reverse charge on legal services received by a business entity ³ from a partnership firm of advocates. Further, tax payable under reverse charge, being not an output tax, cannot be set off against ITC and thus, will have to be paid in cash.]	1,50,000	13,500 [1,50,000 × 9%]	13,500 [1,50,000 × 9%]	
Total GST payable in cash [(A) + (B)]		3,00,000	2,50,000	3,00,900

¹ Interest on delayed payment collected is assumed to be inclusive of GST. Further, the invoice value has been taken as inclusive of GST for computing said penal interest. However, it is also possible to assume the interest to be exclusive of GST and to compute the same by taking the values as exclusive of GST (i.e. ₹ 5,00,000).

² The reversal provisions under rule 42 of the CGST Rules, 2017 have not been given effect to in the above answer on account of specific exclusion of the same via Study guidelines applicable for November, 2023 examination.

³ It has been most logically assumed that the aggregate turnover of ABC Ltd. in the preceding FY was above the threshold limit for registration under GST law.

Notes:

- (1) ITC on goods received in lots is available on receipt of last lot. Hence, ITC on tools received will not be available in February 2023.
- (2) Since discount given by ABC Ltd. on the packets of tools was not known at the time of supply, it shall not be excluded from its value of supply.

Question 4

Candy Blue Ltd., Mumbai, a registered supplier, is manufacturing Chocolates and Biscuits. It provides the following details of taxable inter-state supply made by it for the month of October, 2023.

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(I)	Municipal taxes chargeable on the machine	45,000
(ii)	Outward freight charges (Contract was to deliver machine at ACD Ltd.'s factory i.e. F.O.R. contract)	65,000

Additional information:

- (iii) SQM Ltd. normally gives an interest-free credit period of 30 days for payment, after that it charges interest @ 1% p.m. or part thereof on list price.
ACD Ltd. paid for the supply after 45 days, but SQM Ltd. waived the interest payable.
- (iv) SQM Ltd. received ₹ 50,000 as subsidy, from one non-government organization (NGO) on sale of such machine. This subsidy was not linked to the price of machine and also not considered in list price of ₹ 9,50,000.
- (v) ACD Ltd. deducted discount of ₹ 15,000 at the time of final payment, which was not as per agreement.
- (vi) SQM Ltd. collected ₹ 9,500 as TCS (tax collected at source) under the provisions of the Income Tax Act, 1961.
Compute the value of taxable supply as per the provision of GST laws, considering that the price is the sole consideration for the supply and both parties are unrelated to each other.
Note: Correct legal provision should form part of your answer. (PYP 6 Marks, Nov'20)

Answer 5

Computation of value of taxable supply

S. No.	Particulars	Amount (₹)
	List price (exclusive of taxes and discount)	9,50,000
(I)	Municipal taxes [Note-1]	45,000
(ii)	Outward freight charges [Note-2]	65,000
	Value of taxable supply	10,60,000

Notes:

- Tax other than GST, if charged separately, are includible in the value in terms of section 15.
- Since contract is to deliver machine at buyer's factory, it is a composite supply wherein the freight charges will be added to the value of principal supply of machine.
- Value of supply includes interest charged for delayed payment. However, since the interest on delayed payment has been waived off, the same has not been added to the value.
- Subsidy provided by non-Government bodies is includible in the value in terms of section 15 provided the same is directly linked to the price. Since subsidy received from NGO is not directly linked to the price of the machine, the same has not been added to the value.
- Since the discount was not known or agreed to at the time of supply of goods to the buyers, such discount cannot be reduced from the price, in terms of section 15.
- TCS is not includible in the value of supply as it is an interim levy not having the character of tax.

Question 6

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Paper 3 - Taxation

Mr. Prithviraj, registered under GST, is engaged in supplying services (as discussed in the table below) in Maharashtra. He has furnished the following information with respect to the services provided/ received by him, during the month of February:

S. No.	Particulars	Amount (₹)
(i)	Carnatic music performance given by Mr. Prithviraj to promote a brand of readymade garments (Intra-State transaction)	1,40,000
(ii)	Outdoor catering services availed for a marketing event organised for his prospective customers (Intra-State transaction)	50,000
(iii)	Services of transportation of students provided to Subhaskar College providing education as part of a curriculum for obtaining a recognised qualification (Intra-State transaction)	1,00,000
(iv)	Legal services availed for official purpose from an advocate located in Gujarat (Inter-State transaction)	1,75,000
(v)	Services provided to Wealth Bank as a business correspondent with respect to accounts in a branch of the bank located in urban area (Intra-State transaction)	2,00,000
(vi)	Recovery agent's services provided to a car dealer (Intra-State transaction)	15,000
(vii)	General insurance taken on a car (seating capacity 5) used for official purposes (Intra-State transaction)	40,000

Note:

- (i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.
- (ii) All inward and outward supplies are exclusive of taxes, wherever applicable.
- (iii) All the conditions necessary for availing the ITC have been fulfilled.
- (iv) The turnover of Mr. Prithviraj was ₹ 2.5 crore in the previous financial year. Compute the net GST payable in cash, by Mr. Prithviraj for the month of February. (RTP May '23)

Answer 6

Computation of GST payable

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
GST payable under forward charge				
Carnatic music performance given to promote a brand of readymade garments [Carnatic music performance by Mr. Prithviraj is not exempt from GST even though the consideration charged does not exceed ₹ 1,50,000 since said performance has been made by him as a brand ambassador.]	1,40,000	12,600	12,600	Nil
Services of transportation of students provided to Subhaskar College [Services of transportation of students provided to an educational institution other	1,00,000	9,000	9,000	Nil

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than an institution providing pre- school education or education up to higher secondary school, are not exempt.]				
Services provided to Wealth Bank as a business correspondent [Services provided by a business correspondent to a banking company are not exempt when such services are provided with respect to accounts in its urban area branch.]	2,00,000	18,000	18,000	Nil
Services provided as a recovery agent [Tax is payable under forward charge since recovery agent's services are being provided to a person other than banking company/financial institution/non-banking financial company.]	15,000	1,350	1,350	Nil
Total GST payable under forward charge (A)		40,950	40,950	Nil
GST payable under reverse charge				
Legal services availed from an advocate	1,75,000	Nil	Nil	31,500
[Legal services received by a business entity with aggregate turnover in the preceding financial year exceeding threshold limit for registration (₹ 20 lakh) are not exempt and tax on the same is payable under reverse charge.]				
Total GST payable under reverse charge (B)		Nil	Nil	31,500
Total GST payable [(A)+(B)]		40,950	40,950	31,500

Computation of total ITC available

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Outdoor catering services availed [ITC on outdoor catering services is blocked except when such services are (i) used by the taxpayer who is in the same line of business or (ii) provided by the employer to its employees under a statutory obligation.]	50,000	Nil	Nil	Nil
Legal services availed [ITC is available as said services are used in course or furtherance of business.]	1,75,000	Nil	Nil	31,500
General insurance taken on a car (seating capacity 5) used for official purposes [ITC on motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) is blocked except when the same are used for (i) making further taxable supply of such motor vehicles (ii) making taxable supply of transportation of passengers (iii) making taxable supply of	40,000	Nil	Nil	Nil

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imparting training on driving such motor vehicles. Further, ITC is not allowed on services of general insurance relating to such ineligible motor vehicles.]				
Total ITC available		Nil	Nil	31,500

Computation of net GST payable in cash

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
GST payable under forward charge	40,950	40,950	Nil
Less: ITC of IGST ¹	(15,750) IGST	(15,750) IGST	-
	25,200	25,200	Nil
Add: GST payable under reverse charge in cash [Tax payable under reverse charge, being not an output tax, cannot be set off against ITC and thus, will have to be paid in cash.]	Nil	Nil	31,500
Net GST payable in cash	25,200	25,200	31,500

Note: CGST and SGST is payable on the intra-State transaction and IGST is payable on the inter-State transactions.

¹ ITC of IGST can be utilised towards payment of CGST and SGST in any proportion and in any order. Therefore, there can be multiple ways of setting off of IGST credit against CGST and SGST liability and accordingly, in the given case, amount of net GST payable in cash under the heads of CGST and SGST will vary. However, total amount of net GST payable in cash will be ₹ 81,900 in each case.

Question 7

Kamal Book Depot, a wholesaler of stationery items, registered in Mumbai, has received order for supply of stationery items worth ₹ 2,00,000/- on 12th November, 20XX from another local registered dealer, Mr. Mehta, Mumbai. Kamal Book Depot charged the following additional expenses from Mr. Mehta:-

	Particulars	Amount (₹)
(i)	Packing charges	5,000
(ii)	Freight & Cartage	2,000
(iii)	Transit insurance	1,500
(iv)	Extra designing charges	6,000
(v)	Taxes by Municipal Authority	500

The goods were delivered to Mr. Mehta on 14th November, 20XX. Since Mr. Mehta was satisfied with the quality of the goods, he made the payment of goods the same day and simultaneously placed another order on Kamal Book Depot of stationery items amounting to ₹ 10,00,000 to be delivered in the month of December, 20XX**. On receipt of second order, Kamal Book Depot allowed a discount of ₹ 20,000 on the first order placed by Mr. Mehta.

Compute the GST liability of Kamal Book Depot for the month of November, 20XX assuming the rates of GST on the goods supplied as under:

CGST 9%

SGST 9%

Would your **Answer** be different if expenses (i) to (v) given in above table are already included in the price of ₹ 2,00,000?

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Note:-

- (i) All the amounts given above are exclusive of GST.
- (ii) Kamal Book Depot and Mr. Mehta are not related persons and price is the sole consideration of the supply.

****Payment and invoice for the second order will also be made in the month of December, 20XX only. (RTP May '19)**

Answer 7

Computation of value of taxable supply and tax liability

	Particulars	Amount (₹)
	Price of the goods [Note-1]	2,00,000
(i)	Packing charges [Note-2]	5,000
(ii)	Freight & Cartage [Note-3]	2,000
(iii)	Transit Insurance [Note-3]	1,500
(iv)	Extra Designing charges [Note-4]	6,000
(v)	Taxes by Municipal Authority [Note-5]	500
	Value of taxable supply	2,15,000
	CGST @ 9%	19,350
	SGST @ 9%	19,350

Notes:-

1. As per section 15(1) of the CGST Act, 2017, the value of a supply is the transaction value i.e. the price actually paid or payable for the said supply.
2. All incidental expenses including packing charged by the supplier to the recipient are includible in the value of supply in terms of section 15(2) of the CGST Act, 2017.
3. The given supply is a composite supply involving supply of goods (stationery items) and services (transit insurance and 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.
4. Any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services; is includible in the value of supply vide section 15(2) of the CGST Act, 2017. Thus, extra designing charges are to be included in the value of supply.
5. The taxes by Municipal Authorities are includible in the value of supply in terms of section 15(2) of the CGST Act, 2017.
6. In the given case, Mr. Mehta is allowed a discount of ₹ 20,000 on the goods supplied to him in the month of November, 20XX. Since the said goods have already been delivered by Kamal Book Depot, this discount will be a post-supply discount. Further, value of supply shall not include any discount which is given after the supply has been effected, if—
 - (i) such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and
 - (ii) input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply [Section 15(3) of the CGST Act, 2017].

However, in the given case, post-supply discount given to Mr. Mehta will not be allowed as a deduction from the value of supply since the discount policy was not known before the time of such supply although the discount can be specifically linked to relevant invoice (invoice pertaining to stationery items supplied to Mr. Mehta in November, 20XX).

In case the expenses (i) to (v) given in above table are already included in the price of ₹ 2,00,000: Since these expenses are includible in the value of supply by virtue of the reasons mentioned in explanatory notes above, no further addition will be required.

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Resultantly, the value of taxable supply will be ₹ 2,00,000 and CGST and SGST will be ₹ 18,000 and ₹ 18,000 respectively.

Question 8

Sreshth Pvt. Ltd., a registered supplier of goods and services in Kolkata, has furnished the following information for the month of February:

S. No.	Particulars	Amount (₹)
(i)	Intra-State supply of taxable goods	4,00,000
(ii)	Purchase of goods destroyed due to fire before being put into the production process (It is an intra-State transaction)	5,50,000
(iii)	Services provided to a foreign diplomatic mission located in India (It is an intra-State transaction)	1,00,000
(iv)	Intra-State purchase of food items for being served to the customers, free of cost. (It is an intra-State transaction)	1,75,000
(v)	Goods transport services received from a GTA. GST is payable @ 5% (It is an inter-State transaction)	2,00,000
(vi)	Inter-State services provided to Dhruv Ltd. in respect of a business exhibition held in Delhi	10,000
(vii)	Inter-State security services provided to Torrent Higher Secondary School (unregistered under GST) for their annual day function organised in Katyani Auditorium outside the School campus	15,000
(viii)	Inputs to be received in 3 lots, out of which 2nd lot was received during the month	40,000

The company has following balances of ITC with it at the beginning of the tax period:

Particulars	Amount (₹)
CGST	57,000
SGST	Nil
IGST	50,000

Note:

- Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively unless otherwise mentioned.
- Both inward and outward supplies are exclusive of taxes, wherever applicable.
- All the conditions necessary for availing the ITC have been fulfilled.
- The turnover of Sreshth Pvt. Ltd. was ₹ 2.5 crore in the previous financial year.

Compute the minimum GST, payable in cash, by Sreshth Pvt. Ltd. for the month of February. Make suitable assumptions as required. (MTP 8 Marks Oct 22)

Answer 8

Computation of GST payable on outward supplies

S. No.	Particulars	CGST T (₹)	SGST T (₹)	IGST T (₹)	Total (₹)
GST payable under forward charge					
(i)	Intra-State supply of goods [Note-1]	36,000	36,000	Nil	72,000
(ii)	Services provided to a foreign diplomatic mission located in India [Note-2]	9,000	9,000	Nil	18,000

Paper 3 - Taxation

(iii)	Services provided to Dhruv Ltd. in respect of a business exhibition held in Delhi [Note-3]	Nil	Nil	1,800	1,800
(iv)	Inter-State security services provided to Torrent higher secondary school for their annual day function to be held in Katyani Auditorium. [Note-4]	Nil	Nil	2,700	2,700
Total GST payable under forward charge		45,000	45,000	4,500	94,500
GST payable under reverse charge					
	GTA services availed [As per Notification No. 13/2017 CT(R) dated 28.06.2017, GST is payable by the recipient on reverse charge basis on the receipt of services of transportation of goods by road from a goods transport agency (GTA), provided GST is not payable @ 12% and services have been received by the specified recipient. Since in the given case, services have been received from a GTA where GST is payable @ 5% and recipient is one of the specified recipients, reverse charge provisions will be applicable.]	Nil	Nil	10,000	10,000

Notes

- Intra-State supply of goods is leviable to CGST and SGST.
- Services by a foreign diplomatic mission located in India are exempt vide Notification No. 12/2017 CT(R) dated 28.06.2017. However, no exemption is available with respect to the services provided to a foreign diplomatic mission located in India.
- Services by an organiser to any person in respect of a business exhibition are exempt vide Notification No. 12/2017 CT(R) dated 28.06.2017, only if such business exhibition is held outside India. Thus, in the given case, said service is taxable.
- Security services provided to Torrent higher secondary School for Annual Day function organised outside the school campus will be taxable as only the security services performed within the premises of the higher secondary school are exempt vide Notification No. 12/2017 CT(R) dated 28.06.2017.

Computation of total ITC available

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Opening ITC	57,000	Nil	50,000
Add: Purchase of goods destroyed due to fire before being put into the production process [ITC is blocked on lost goods, stolen goods, destroyed goods and goods that are written off]	Nil	Nil	Nil
Add: Purchase of food items for being served to the customers, free of cost [Blocked credit]	Nil	Nil	Nil
Add: Goods transport services received from GTA [ITC is available for the services received from GTA since it is used in course or furtherance of business.]	Nil	Nil	10,000

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Add: Inputs to be received in 3 lots, out of which 2nd lot was received during the month [In case of goods received in lots, ITC can be taken only upon receipt of the last lot]	Nil	Nil	Nil
Total ITC	57,000	Nil	60,000

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST (₹)	SGST (₹)	IGST (₹)	Total (₹)
GST payable under forward charge	45,000	45,000	4,500	94,500
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(10,500) IGST (3)	(45,000) IGST (2)	(4,500) IGST (1)	60,000
	(34,500) CGST			34,500
GST payable under reverse charge on GTA services [Payable in cash since tax payable under reverse charge, being not an output tax, cannot be set off against ITC and thus, will have to be paid in cash]			10,000	
Minimum GST payable in cash	Nil	Nil	10,000	Nil

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 first been used to pay SGST (after paying IGST liability) and then CGST to minimize cash outflow.

Question 9

Alfa Institute of Management (AIM), a private college, is registered under GST in the State of Punjab. AIM provides the following particulars for the month of April, 2023 :

SI. No.	Particulars	Amount (₹)
i.	Tuition fee received from students pursuing management courses recognised by Punjab University, established by an Act of State Legislature	18,00,000
ii.	Tuition fee received from students pursuing under-graduate courses recognised by Stan University, London under Dual Degree programmes	8,50,000
iii.	Fee received from students of competitive exam training academy run by a Department of AIM	5,40,000
iv.	Mess fees received from students pursuing qualification recognized by Indian law (Mess is run by AIM on its own)	3,20,000
v.	Amount paid to Local Municipal Corporation for premises taken on rent for conducting coaching classes for competitive exams	50,000
vi.	Legal services availed from Top Care & Co., a Partnership firm of advocates, for the competitive exam training academy (Intra-state transaction)	20,000

Note:

The aggregate turnover of AIM in the preceding financial year exceeds ₹ 20 lakh. Rate of CGST, SGST and IGST are 9%, 9% and 18% respectively for both outward and inward supplies. All the amounts given above are exclusive of taxes, wherever applicable. All the conditions necessary for availing the ITC

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have been fulfilled, wherever applicable. There is no opening balance of ITC under any head of tax. From the information given above, you are required to calculate the Value of taxable supply and minimum GST liability (CGST, SGST or IGST as the case may be) to be paid in cash, if any, by AIM for the month of April, 2021. (MTP 8 Marks April 22)

Answer 9

Computation of value of taxable supply and net GST liability to be paid in cash by AIM for April, 2023

Particulars	Amount (₹)	
Tuition fee received from students pursuing recognized management courses [Note-1]	Nil	
Tuition fee received from students pursuing under-graduate courses recognized by Foreign University [Note-2]	8,50,000	
Fee received from students of Competitive Exam Training Academy [Note-3]	5,40,000	
Mess fees received from students [Note-4]	Nil	
Total value of taxable supply	13,90,000	
Particulars	CGST (₹)	SGST (₹)
GST liability under forward charge @ 9% [Note-5]	1,25,100	1,25,100
Services on which tax is payable under reverse charge:		
Rent paid to Local Municipal Corporation [Note-6]	4,500	4,500
Legal services received from Top Care & Co., a partnership firm of advocates [Note-7]	1,800	1,800
GST liability under reverse charge payable in cash [A] [Note-8]	6,300	6,300
Output tax payable against which ITC can be set off	1,25,100	1,25,100
Less: ITC of renting immovable property and legal services	6,300	6,300
Output tax payable after set off of ITC [B]	1,18,800	1,18,800
Net GST liability payable in cash [A] + [B]	1,25,100	1,25,100

Notes:-

- Services provided by an educational institution to its students are exempt. Further, educational institution means inter alia an institution providing services by way of education as a part of a curriculum for obtaining a qualification recognised by an Indian law. Therefore, tuition fee received by Punjab University, being an educational institution, is exempt, since it provides qualification recognised by Indian law.
- Tuition fee received by Stan University is taxable since Stan University is not an educational institution as qualification provided by it is not recognised by Indian law.
- Fee received from students of competitive exam training academy is taxable as Department of AIM is not an educational institution since competitive exam training does not lead to grant of a recognized qualification.
- Catering services provided by educational institutions to its students are exempt.
- Since all the services provided are intra-State, CGST and SGST @ 9% is charged
- GST is payable under reverse charge in case of renting of immovable property services supplied by a local authority to a registered person.
- GST is payable under reverse charge in case of legal services supplied by a firm of advocates to a business entity.

The amount available in the electronic credit ledger may be used for making payment towards output tax. However, tax payable under reverse charge is not an output tax.

Therefore, tax payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.

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Paper 3 - Taxation

Question 10

(a) M/s. Paisa Saver Bank Limited, a scheduled commercial bank, has furnished the following details for the month of September:

Particulars	Amount [₹ in lakh] excluding GST)
Extended housing loan to its customers	130
Processing fees collected from its customers on sanction of loan	20
Commission collected from its customers on bank guarantee	30
Interest income on credit card issued by the bank	40
Interest received on housing loan extended by the bank	35
Minimum balance charges collected from current account and saving account holder	03

Compute the value of taxable supply. (MTP 6 Marks April 22,)

Answer 10

(a) Computation of value of taxable supply of M/s. Paisa Saver Bank Limited for the month of September:

Particulars	Amount in lakh (₹)
Housing loan extended to customers [Since money does not constitute goods, extending housing loan is not a supply.]	Nil
Processing fee collected on sanction of loan [Interest does not include processing fee on sanction of the loan. Hence, the same is taxable.]	20
Commission collected on bank guarantee [Any commission collected over and above interest on loan, advance or deposit are not exempt.]	30
Interest income on credit card issued by the bank [Services by way of extending loans in so far as the consideration is represented by way of interest are exempt from tax. However, interest involved in credit card services is specifically excluded from this exemption entry.]	40
Interest received on housing loan [Services by way of extending loans in so far as the consideration is represented by way of interest are exempt from tax.]	Nil
Minimum balance charges collected from current account and saving account holder [Any charges collected over and above interest on loan, advance or deposit are not exempt.]	03
Value of taxable supply	93

Question 11

A manufacturer of machinery supplied a special machine to Modern Furnishers. Following details are provided in relation to amounts charged:

S. No.	Particulars	Rs.
(i)	Price of machinery excluding taxes (before cash discount)	5,00,000
	Additional charges not included above:-	
(ii)	Freight	13,000

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(iii)	Packing charges	10,000
(iv)	Charges for designing the machine	17,000

Other information furnished is -

- (a) Cash discount @ 2% on price of machinery has been allowed to the customer at the time of supply and also recorded in invoice.
 (b) GST rate - 18%.

Calculate value of supply of the special machine. (MTP 5 Marks, Aug'18)

Answer 11

Computation of value of special machine

Particulars	Rs.
Price of machinery	5,00,000
Add: Freight [Note 1]	13,000
Packing charges [Note 2]	10,000
Designing charges [Note 3]	17,000
Total	5,40,000
Less: 2% cash discount on price of machinery [Rs. 5,00,000 x 2%] [Note 4]	10,000
Value of taxable supply	5,30,000

Notes:

- Supply of machinery (goods) with supply of ancillary services like freight is a composite supply, the principle supply of which is the supply of machinery. Thus, value of such ancillary supply is includible in the value of composite supply.
- 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.
- Designing charges are includible in the value of supply as 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 so includible in terms of section 15(2)(c) of CGST Act, 2017.
- 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.

Question 12

Shri Krishna Pvt. Ltd., a registered supplier, furnishes the following information relating to goods sold by it to Shri Balram Pvt. Ltd.-

S. No.	Particulars	Amount (₹)
(i)	Price of the goods [excluding taxes and other charges mentioned at S. Nos. (iii), (v) and (vi)]	1,00,000
(ii)	Municipal tax	2,000
(iii)	Inspection charges	15,000
(iv)	Subsidy received from Shri Ram Trust [Subsidy is directly linked to the goods supplied]	50,000
(v)	Late fees for delayed payment inclusive of GST [Shri Balram Pvt. Ltd. paid the late fees. However, these charges were ultimately waived by Shri Krishna Pvt. Ltd. and the amount was refunded to Shri Balram Pvt. Ltd. during the same month]	1,000
(vi)	Weighment charges [Such charges were paid by Shri Balram Pvt. Ltd. to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd.]	2,000

Note: Price of the goods is net of the subsidy received.

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Paper 3 - Taxation

Determine the value of taxable supply made by Shri Krishna Pvt. Ltd. to Shri Balram Pvt. Ltd.

(MTP 6 Marks, Nov'21, Oct'20 & Sep '23)

Answer 12

Computation of value of taxable supply made by Shri Krishna Pvt. Ltd. to Shri Balram Pvt. Ltd.

Particulars	Amount (₹)
Price of the goods	1,00,000
Municipal tax [Includible in the value as per section 15(2)(a)]	2,000
Inspection charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value as per section 15(2)(c)]	15,000
Subsidy received from Shri Ram Trust [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e)]	50,000
Late fees for delayed payment [Not includible since the same is waived off]	Nil
Weighment charges paid to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd. [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	2,000
Value of taxable supply	1,69,000

Question 13

M/s. Flow Pro, a registered supplier, sold a machine to BP Ltd. It provides the following information in this regard: -

S. No.	Particulars	Amount (₹)
(i)	Price of the machine [excluding taxes and other charges mentioned at S. Nos. (ii) and (iii)]	25,000
(ii)	Third party inspection charges [Such charges were payable by M/s Flow Pro but the same have been directly paid by BP Ltd. to the inspection agency. [These charges were not recorded in the invoice issued by M/s Flow Pro.]	5,000
(iii)	Freight charges for delivery of the machine [M/s Flow Pro has agreed to deliver the goods at BP Ltd.'s premises]	2,000
(iv)	Subsidy received from the State Government on sale of machine under Skill Development Programme [Subsidy is directly linked to the price]	5,000
(v)	Discount of 2% is offered to BP Ltd. on the price mentioned at S. No. (i) above and recorded in the invoice	

Note: Price of the machine is net of the subsidy received.

Determine the value of taxable supply made by M/s Flow Pro to BP Ltd. (MTP 6 Marks, Oct'21,)

Answer 13

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Paper 3 - Taxation

Computation of value of taxable supply made by M/s. Flow Pro to BP Ltd.

Particulars	Amount (₹)
Price of the machine [Since the subsidy is received from the State Government, the same is not includible in the value of supply in terms of section 15(2)(e)]	25,000
Third party inspection charges [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	5,000
Freight charges for delivery of the machine [Since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are added in the value of principal supply.]	2,000
Total	32,000
Less: Discount @ 2% on ₹ 25,000 being price charged to BP Ltd. [Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply in terms of section 15(3)(a)]	500
Value of taxable supply	31,500

Question 14

Kavya Ltd., a registered supplier, has supplied machinery to Ayesha Ltd. (a supplier registered in the same State). It provides following particulars regarding the same:

S. No.	Particulars	Amount (Rs.)
(i)	Price of machinery (exclusive of taxes and discounts)	5,50,000
(ii)	Part fitted in the machinery at the premises of Ayesha Ltd. [Amount has been paid by Ayesha Ltd. directly to the supplier. However, it was Kavya Ltd.'s liability to pay the said amount. The said amount has not been recorded in the invoice issued by Kavya Ltd.]	20,000
(iii)	Installation and testing charges for machinery, not included in price	25,000
(iv)	Discount @ 2% on price of the machinery mentioned at S. No. (i) above (recorded in the invoice)	
(v)	Kavya Ltd. provides additional discount @ 1% at year end, based on additional purchase of other machinery for which adjustment is made at the end of the financial year without any change in individual transactions.	

Determine the value of taxable supply made by Kavya Ltd. to Ayesha Ltd. (MTP 6 Marks, April'21, Mar'22, MTP 4 Marks May 20)

Answer 14

Computation of value of taxable supply made by Kavya Ltd. to Ayesha Ltd.

Particulars	Amount (Rs.)
Price of machinery (exclusive of taxes and discounts)	5,50,000

Paper 3 - Taxation

Amount paid by Ayesha Ltd. directly to the supplier for the part fitted in the machinery [Any amount that the supplier is liable to pay in relation to a supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods is includible in the value of supply in terms of section 15(2)(b) of the CGST Act, 2017.]	20,000
Installation and testing charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value of supply in terms of section 15(2)(c) of the CGST Act, 2017.]	25,000
Less: Discount @ 2% on the price of machinery [Rs.5,50,000 x 2%] [Since discount is given at the time of supply of machinery and recorded in the invoice, the same is deductible from the value of the supply in terms of section 15(3)(a) of the CGST Act, 2017.]	11,000
Less: Additional 1% discount at year end [Though the additional discount is established before/at the time of supply, it is not deductible from the value of supply in terms of section 15(3)(b) of the CGST Act, 2017 as the same is not linked to any specific transaction and is adjusted by the parties at the end of the financial year.]	Nil
Value of taxable supply	5,84,000

Question 15

Quantum Plast Private Limited, Delhi supplies plastic granulation machine to Capscom Ltd., Delhi. It furnishes the following details in respect of such supply:

Particulars	₹
List price of the machine (exclusive of taxes and discounts)	1,00,000
Corrugated Boxes used for packing the machine (not included in price above)	1,000
Subsidy received from Delhi Government on sale of such machine (considered in price above)	5,000
Discount @ 2% is offered on list price of the machine (recorded in the invoice for the machine)	

Determine the value of taxable supply made by Quantum Plast Private Limited. (MTP 5 Marks, March'18)

Answer 15

Computation of value of taxable supply

Particulars	₹
List price of the goods (exclusive of taxes and discounts)	1,00,000
Add: Corrugated Boxes used for packing the machine [Includible in the value as per section 15(2)(c)]	1,000
Add: Subsidy received from Delhi Government on sale of such machine [Subsidy received from State Government is not included the value in terms of section 15(2)(e)]	-
Total	1,01,000
Less: Discount @ 2% on ₹ 1,00,000 [Since discount is known at the time of supply, it is deductible from the value in terms of section 15(3)(a)]	2,000
Value of taxable supply	99,000

Question 16

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Paper 3 - Taxation

(a) Blue Stone Ltd., Delhi, a registered supplier, is manufacturing taxable goods. It provides the following details of taxable inter-State supply made by it during the month of March.

S. No.	Particulars	Amount (₹)
(i)	List price of taxable goods supplied inter-state (exclusive of taxes)	12,00,000
(ii)	Subsidy received from the Central Government for supply of taxable goods to Government School (exclusively related to supply of goods included at S. No. 1)	1,75,000
(iii)	Subsidy received from an NGO for supply of taxable goods to an old age home (exclusively related to supply of goods included at S. No. 1)	50,000
(iv)	Tax levied by Municipal Authority	20,000
(v)	Packing charges	15,000
(vi)	Late fee paid by the recipient of supply for delayed payment of consideration (Recipient has agreed to pay ₹ 6,000 in lump sum and no additional amount is payable by him)	6,000

The list price of the goods is net of the two subsidies received. However, the other charges/taxes/fee are charged to the customers over and above the list price. Calculate the total value of taxable supplies made by Blue Stone Ltd. during the month of March. Rate of IGST is 18%. (MTP 4 Marks April 22, MTP 6 Marks Oct '23)

Answer 16

(a) Computation of total value of taxable supplies made by Blue Stone Ltd. during the month of March

Particulars	Amount (₹)
List price of the goods	12,00,000
Subsidy amounting to ₹ 1,75,000 received from the Central Government [Since the subsidy is received from the Government, the same is not includible in the value in terms of section 15(2)(e) of the CGST Act]	NIL
Subsidy received from NGO [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e) of the CGST Act]	50,000
Tax levied by the Municipal Authority [Includible in the value as per section 15(2)(a) of the CGST Act]	20,000
Packing charges [Being incidental expenses, the same are includible in the value as per section 15(2)(c) of the CGST Act]	15,000
Late fees paid by recipient of supply for delayed payment [Includible in the value as per section 15(2)(d) of the CGST Act - As the amount of interest received is a lump sum amount, the same has to be taken as inclusive of GST] [₹ 6,000 × 100/118] rounded off	5,085
Total value of taxable supplies	12,90,085

Question 17

Prithviraj Pvt. Ltd., a registered supplier, is engaged in manufacturing heavy steel fabrication machine. The details pertaining to pricing of each such machine is as follows:

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Paper 3 - Taxation

S. No.	Particulars	Amount (₹)
(i)	Price of the machine (exclusive of taxes and discounts)	5,50,000
(ii)	Part fitted in the machine at the premises of the recipient	20,000
	[Amount has been paid by recipient directly to the supplier. However, it was Prithviraj Pvt. Ltd.'s liability to pay the said amount.]	
(iii)	Installation and testing charges at the premises of the recipient	25,000
(iv)	Subsidy received from Shri Ram Trust [Subsidy is directly linked to the price of the machine]	50,000

Items given in points (ii) to (iv) have not been considered while arriving at price of the machine given in point (i) above. The contract includes installation and testing of machine at the recipient's premises.

Prithviraj Pvt. Ltd. has made supply of 10 such machines in the month of July. It also provided the following details pertaining to the purchases made/services availed during said month:

Sr. No	Particulars	Amount (₹)
(1)	Raw material (to be received in September)	10,00,000
(2)	Membership of a club availed for employees working in the factory	6,00,000
(3)	Trucks used for transport of raw material	3,50,000
(4)	Capital goods (out of 3 items, invoice for 2 items is missing and GST paid on those two items is ₹ 18,000)	7,00,000

Compute the net GST payable in cash by Prithviraj Pvt. Ltd. for the given month assuming that all the inward and outward supplies are intra-State supplies. Assume the rates of taxes to be as under:

Particulars	Rates of tax
Central tax (CGST)	9%
State Tax (SGST)	9%
Integrated tax (IGST)	18%

Make suitable assumptions, wherever necessary. All the conditions necessary for availing the ITC have been fulfilled. Opening balance of the input tax credit for the relevant period is Nil. (MTP 8 Marks Sep'22)

Answer 17

Computation of net GST payable by Prithviraj Pvt. Ltd. for the month of July

Particulars	CGST T (₹)	SGST (₹)
GST payable on outward supplies (Refer Working note - 1)	5,80,500	5,80,500
Less: ITC (Refer Working note - 2) [ITC of CGST is utilised for payment of CGST and ITC of SGST is utilised for payment of SGST.]	76,500	76,500
Net GST payable in cash	5,04,000	5,04,000

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Paper 3 - Taxation

Working note - 1

Computation of GST payable on outward supply made by Prithviraj Pvt. Ltd. for the month of July

Particulars	Amount (₹)
Price of machine (exclusive of taxes and discounts)	5,50,000
Amount paid by the recipient directly to the supplier (Prithviraj Pvt. Ltd.) for the part fitted in the machine [Any amount that the supplier is liable to pay in relation to a supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods is includible in the value of supply.]	20,000
Installation and testing charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value of supply.]	25,000
Subsidy received from Shri Ram Trust [Since the subsidy is received from a non-Government body and directly linked to the price, the same is includible in the value of supply.]	50,000
Value of taxable supply of 1 machine	6,45,000
Value of taxable supply of 10 machines [₹ 6,45,000 × 10]	64,50,000

GST payable on outward supplies	
CGST @ 9%	5,80,50
SGST @ 9%	0
[Since all the outward supplies are intra-State supplies, CGST and SGST are payable on the same.]	5,80,50
	0

Working note - 2

Computation of ITC available with Prithviraj Pvt. Ltd. for the month of July

Particulars	CGST (₹)	SGST (₹)
Raw Material [ITC not available as raw material is not received in July]	Nil	Nil
Membership of a club availed for employees working in the factory [Blocked credit]	Nil	Nil
Trucks used for transport of raw material [ITC of GST paid on motor vehicles used for transportation of goods is allowed]	31,500	31,500
Capital goods [ITC of GST paid on items for which invoice is missing is not available. So, ITC of ₹ 18,000 is not available] [₹ 63,000 - ₹ 18,000]	45,000	45,000
Total ITC available	76,500	76,500

Note - Since all the inward supplies are intra-State supplies, CGST @ 9% and SGST @ 9% are payable on the same.

Question 18

Guru Enterprises (Delhi), a registered taxpayer, made a taxable supply to Y Ltd. (Delhi). The details of the said supply are as follows:

Particulars	Amount (₹)
Price of the goods (excluding any tax or discounts)	10,00,000

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Paper 3 - Taxation

Tax levied by the Municipal Authority	10,000
Subsidy received from Jiva Enterprises Pvt Ltd. (The price above is after consideration of such subsidy amount)	1,00,000
Amount incurred by Y Ltd. for post delivery inspection. (Charges incurred post receipt of goods by Y Ltd.)	5,000

In respect of above supply, Guru Enterprises had procured some raw material from X Ltd., for which it owed ₹ 25,000. The said amount was directly paid by Y Ltd. to X Ltd. and was not included in the price of goods of ₹10,00,000 mentioned above.

The payment of consideration for above supply was delayed by Y Ltd. Hence, an interest amount of ₹ 20,000 (in lumpsum) was also charged by Guru Enterprises.

The applicable tax rates are - CGST - 6%, SGST - 6% and IGST - 12%. You are required to determine the taxable value as well as the applicable tax liability for the said supply transaction. (MTP 6 Marks April '23)

Answer 18

Computation of taxable value and tax liability

Particulars	Amount (₹)
Price of goods (exclusive of tax and discounts)	10,00,000
Add: Tax levied by Municipal Authority [Tax other than GST, if charged separately, are includible in the value.]	10,000
Add: Subsidy received from Jiva Enterprises Pvt. Ltd. [Subsidy provided by non-Government bodies and which is directly linked to the price is includible.]	1,00,000
Add: Post-delivery inspection charges [Anything done by the supplier in respect of the supply of goods after the delivery of goods is not includible in value.]	-
Add: Amount directly paid by Y Ltd. to X Ltd. [Liability of the supplier, in relation to the supply being valued, if discharged by the recipient of supply and not included in the price, is includible in the value.]	25,000
Add: Interest [Interest for delayed payment of consideration is includible in the value. Since interest is received in lumpsum, amount is inclusive of GST [₹ 20,000 x 100/112] (rounded off).]	17,857
Value of taxable supply	11,52,857
CGST @ 6%	69,171
SGST @ 6%	69,171

Question 19

Namo Shankar Ltd., a registered supplier in Mumbai (Maharashtra), has supplied goods to Narad Traders and Nandi Motors Ltd. located in Ahmedabad (Gujarat) and Pune (Maharashtra) respectively. Namu Shankar Ltd. has furnished the following details for the current month:

S. No.	Particulars	Narad	Nandi Motors
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Paper 3 - Taxation

		Traders (₹)	Ltd. (₹)
(i)	Price of the goods (excluding GST)	10,000	30,000
(ii)	Packing charges	500	
(iii)	Commission	500	
(iv)	Weighment charges		2,000
(v)	Discount for prompt payment (recorded in the invoice)		1,000

Items given in points (ii) to (v) have not been considered while arriving at price of the goods given in point (i) above.

Compute the GST liability [CGST & SGST or IGST, as the case may be] of Namo Shankar Ltd. for the given month. Assume the rates of taxes to be as under:

PARTICULARS	Rate of tax
Central tax (CGST)	9%
State Tax (SGST)	9%
Integrated tax (IGST)	18%

Make suitable assumptions, wherever necessary.

Note: The supply made to Narad Traders is an inter-State supply. (RTP Nov '21 & May '18)

Answer 19

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)	-	1,000
	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.

Question 20

Chill Ltd., Delhi, a registered supplier, manufacturing machineries has made a taxable supply of machinery during the month of March. It furnished the following details for each such machinery supplied: -

S. No.	Particulars	Amount (₹)
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Paper 3 - Taxation

(i)	List price of machinery (exclusive of taxes)	10,00,000
(ii)	Subsidy received from the Central Government for supply of machinery to Government School (exclusively related to supply of machinery included at S. No. 1)	2,10,000
(iii)	Subsidy received from an NGO for supply of machinery to an old age home (exclusively related to supply of goods included at S. No. 1)	2,00,000
(iv)	Tax levied by Municipal Authority	2,50,000
(v)	Packing charges	1,25,000

Additional information:-

The list price of the machinery is after considering the two subsidies received. However, the other charges/taxes/fee are charged to the customers over and above the list price.

Further, the company has provided the following information pertaining to purchases made/services availed by it in respect of supply of said machinery during the month of March:

S. No	Particulars	GST (₹)
(1)	Raw material (to be received in the month of April)	8,50,000
(2)	Membership of a club availed for employees working in the factory (not obligatory to be provided under any law)	4,00,000
(3)	Inputs to be received in 6 lots, out of which 1st lot was received during the month	3,50,000
(4)	Trucks used for transport of raw material	1,50,000
(5)	Capital goods (out of 3 items, invoice for 2 items is missing and GST paid on those items is ₹ 2,82,000)	3,50,000

Note:

- (i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.
 - (ii) All inward and outward supplies are exclusive of taxes, wherever applicable.
 - (iii) All the conditions necessary for availing the ITC have been fulfilled, subject to the information given above.
 - (iv) All inward and outward supplies are inter-State supplies.
- Compute the net GST payable in cash, by Chill Ltd. for the month of March. (RTP Nov '23)

Answer 20

Computation of net GST payable in cash

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Supply of machinery [Refer Working Note]	15,75,000			2,83,500

Paper 3 - Taxation

Less: ITC available				2,18,000
				0
Net GST payable in cash				65,500

Note: IGST is payable on the inter-State transactions.

Computation of total value of taxable supply made by Chill Ltd. during the

month of March

Particulars	Amount (₹)
List price of the machinery	10,00,000
Subsidy amounting to ₹ 2,10,000 received from the Central Government [Since the subsidy is received from the Government, the same is not includible in the value in terms of section 15(2)(e) of the CGST Act, 2017]	Nil
Subsidy received from NGO [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e) of the CGST Act, 2017]	2,00,000
Tax levied by the Municipal Authority [Includible in the value as per section 15(2)(a) of the CGST Act, 2017]	2,50,000
Packing charges [Being incidental expenses, the same are includible in the value as per section 15(2)(c) of the CGST Act, 2017]	1,25,000
Total value of taxable supplies	15,75,000

Computation of ITC that can be availed by Chill Ltd. for the month of March

Particulars	ITC (₹)
Raw Material [ITC not available as raw material is not received in March]	Nil
Membership of a club availed for employees working in the factory (not obligatory to be provided under any law) [ITC is blocked in terms of section 17(5) of the CGST Act, 2017]	Nil
Inputs to be received in 6 lots, out of which 1st lot was received during the month [In case of goods received in lots, ITC can be taken only upon receipt of the last lot]	Nil
Trucks used for transport of raw material [ITC of GST paid on motor vehicles used for transportation of goods is allowed unconditionally]	1,50,000
Capital goods [ITC can be availed only on the basis of a valid document (invoice). Thus, GST paid on items for which invoice is missing, i.e. ₹ 2,82,000, is not available.]	68,000
Total ITC	2,18,000

Question 21

Ms. Achintya, a registered supplier in Kochi (Kerala State) has provided the following details in respect of her supplies made Intra-State for the month of

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Paper 3 - Taxation

March 2024:

	Particulars	Amount in `
(I)	List price of goods supplied intra-state (exclusive of items given below from ii to v)	3,30,000
(ii)	Swachh Bharat cases levied on sale of the goods	12,500
(iii)	Packing expenses charged separately in the invoice	10,800
(iv)	Discount of 1% on list price of goods was provided (recorded in the invoice of goods)	
(v)	Subsidy received from State Govt. for encouraging women entrepreneurs	5,000

Compute the value of taxable supply and the gross GST liability of Ms. Achintya for the month of March 2024 assuming rate of CGST to be 9% and SGST to be 9%. All the amounts given above are exclusive of GST (PYP 5 Marks, Nov'18)

Answer 21

Computation of value of taxable supply and gross GST liability of Ms. Achintya for the month of March, 2024

Particulars	
List price of the goods	3,30,000
Add: Swachh Bharat Cass (SBC) levied on sale of goods [Note-1]	12,500
Add: Packing expenses [Note-2]	10,800
Less: Subsidy received from State Government [Note-3]	(5,000)
Less: Discount @ 1% on list price [Note-4]	(3,300)
Value of taxable supply	3,45,000
CGST @ 9%	31,050
SGST @ 9%	31,050
Gross GST liability	62,100

Notes: -

As per section 15 of CGST Act, 2017,

- Any taxes, duties and cases levied under any law other than CGST, SGST is includible in the value.
- Packing expenses being incidental expenses, are includible in the value.
- Since subsidy is received from State Government, the same is not includible in the value. It has been assumed that such subsidies are directly linked to the price of the goods. Further, since the same has not been adjusted in the list price, the same is to be excluded from the list price.
- Since discount is known at the time of supply, it is deductible from the value.

Note:

- (i) In the above answer, the term "exclusive" mention need in the question has been taken to be as "not adjusted in the list price", i.e. the list price given in the question is before adjusting the amount of discount and subsidy. However, it is also possible to take a view that the list price "excludes" amount of discount and subsidy. Therefore, the same need not be deducted again from the list price to arrive at the taxable value.
- (ii) Read SBC as other taxes.

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Question 22

M/s. Grey, a registered taxable person under regular scheme provides following information in respect of supplies made by it during the month of April, 2023:

	(All amount in rupees)
(i) Inter-state supply of goods	1,00,000
(ii) Intra-state supply of 500 packets of detergent @ ₹ 400 each along with a plastic bucket worth ₹ 100 each with each packet, being a mixed supply. (Rate of GST on detergent is 18% and on plastic bucket is 28%)	
(iii) Supply of online educational journals to M/s. Pinnacle, a private coaching centre providing tuitions to students of Class X-XII, being intra-state supply.	50,000

M/s. Grey has also received the following inward supplies:

(iv) Inter-state supply of goods (out of which invoice for goods worth ₹ 20,000 is missing and no other tax paying document is available)	70,000
(v) Repairing of bus with seating capacity of 20 passengers used to transport its employees from their residence, being intra-state supply.	50,000

Details of opening balances of ITC as on 1-4-2023 are as follows:

CGST	5,000
SGST	5,000
IGST	40,000

Following additional information is provided:

- Rate of GST in respect of all inward and outward supplies except item (ii) above is 18%.
i.e. CGST and SGST @ 9% and IGST @ 18%.
- All figures mentioned above are exclusive of taxes.
- All the conditions for availing the ITC have been fulfilled except specifically given and M/s. Grey is not eligible for any threshold exemption.

Compute the minimum net GST payable in cash by M/s. Grey for the month of April, 2023. (RTP 8 Marks, Nov'19)

Answer 22

Computation of minimum net GST payable in cash by M/s. Grey for the month of April, 2023.

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Total tax liability				
Inter-State supply of goods	1,00,000			18,000
Intra-State supply of 500 packets of detergents along with a plastic bucket [Note-1]	2,00,000 (500 x 400)	28,000 (2,00,000 x 14%)	28,000 (2,00,000 x 14%)	
Supply of online educational journal to private coaching	50,000	4,500 (50,000 x 9%)	4,500 (50,000 x 9%)	

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centre [Note-2]		9%)	9%)	
Total tax liability (A)		32,500	32,500	18,000
Input tax credit (ITC)				
Brought forward ITC		5,000	5,000	40,000
Inter-State purchase of goods [Note-3]	50,000			9,000
Repairing of bus with seating capacity of 20 passengers [Note-4]	50,000	4,500	4,500	
Total ITC (B)		9,500	9,500	49,000
Minimum net GST payable in cash				
Total tax liability		32,500	32,500	18,000
Less: Set off of IGST liability from IGST credit				(18,000)
Set off IGST credit against CGST and SGST liability in any order and in any proportion		(23,000)	(8,000)	
Set off of CGST and SGST credit against CGST and SGST liability respectively		(9,500) CGST	(9,500) SGST	
Minimum net GST payable in cash		Nil	15,000	Nil

Notes: -

1. Supply of detergent and bucket together with a single price of ₹ 400 is a mixed supply. Being a mixed supply comprising of two supplies, it shall be treated as supply of that particular supply that attracts highest rate of tax (28%).
2. Supply of online educational journal is exempt only when the same is provided to an educational institution which provides a qualification recognized by law. Since, the private coaching centre does not provide any recognized qualification, the supply of online educational journals to the same will be taxable.
3. ITC can be taken only on the basis of a valid tax paying document. Thus, ITC will not be available on goods for which the invoice is missing.
4. ITC on motor vehicles for transportation of persons with seating capacity > 13 persons (including the driver) used for any purpose is allowed. Further, ITC is allowed on repair and maintenance services relating to motor vehicles, ITC on which is allowed.

Note:

Under the amended position of law, the IGST credit, after being set off against IGST liability, can be utilized against CGST and SGST liability in any order and in any proportion. Thus, there cannot be one answer for the minimum net CGST and SGST payable in cash [i.e. GST liability] as the amount of CGST and SGST liabilities are the same as also the amount of ITC for CGST and SGST is also the same.

Question 23

XYZ Pvt. Ltd. provided the following particulars relating to goods sold by it to ABC Pvt. Ltd.:

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Particulars	Amount (₹)
List price of the goods (exclusive of taxes and discount)	50,000
Tax levied by the Municipal Authority on the sale of such goods	6,000
Packing charges (not included in the list price above)	2,500
Subsidy received from a NGO, directly linked to price (included in the list price above)	3,000
Paid to one of the vendors by ABC Pvt. in relation to the service provided by the vendor to XYZ Pvt. Ltd. (not included in the list price above)	2,000

XYZ Pvt. Ltd. offers 2% turnover discount on the list price after reviewing the performance of ABC Pvt. Ltd. The discount was not known at the time of supply. ABC Pvt. Ltd. delayed the payment and paid ₹ 5,000 (including GST of 18%) as interest to XYZ Pvt. Ltd. Determine the value of taxable supply made by XYZ Pvt. Ltd. under GST law. (PYP 6 Marks May'22)

Answer 23

Computation of value of taxable supply made by XYZ Pvt. Ltd.

Particulars	Amount (₹)
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods [Taxes other than GST, if charged separately, are includible in the value of supply.]	6,000
Packing charges [Being incidental expenses, same are includible in the value of supply.]	2,500
Subsidy received from NGO [Since subsidy is received from a non-Government body and directly linked to the price, the same is includible in the value of supply.]	Nil
Payment made by ABC Pvt. Ltd. in relation to service provided by vendor to XYZ Pvt Ltd ¹ . [Amount that supplier is liable to pay, but incurred by the recipient, is includible in the value of supply.]	2,000
Turnover discount [Since discount is not known at the time of supply, it is not deductible from the value of supply.]	-
Interest for delayed payment (rounded off) [Includible in the value of supply]	4,237 [5,000 × 100/118]
Value of taxable supply	64,737

¹ It has been most logically assumed that service provided by the vendor to XYZ Pvt. Ltd. is in relation to supply of goods by XYZ Pvt. Ltd. to ABC Pvt. Ltd.

Question 24

Jino Enterprises, a partnership firm is a regular taxable person registered in Guwahati, Assam and is engaged in supply of Air conditioners and its accessories as well as air conditioned repairing services. Details of their various activities for the month of October 2024 are as follows:

(i) **Intra State supply of Air conditioner to customers in Assam. Freight is separately charged in invoices for delivery of goods at customer's doorstep.**

	-
Value of goods	4,00,000

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Value of freight charges charged separately in above invoices.	1,00,000
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- (ii) Intra State supply of repairing services wherein apart from charging service charges, cost of parts/ spares provided to customers is also charged and consideration for the same is separately mentioned in the invoices.

Value of services component of invoices	3,00,000
Value of parts / spares component in invoices	50,000

- (iii) In order to enhance their sales and to clear the stock of old models of air-conditioner, Jino

Enterprises made combo offers to customers wherein, if a customer purchases an Air-conditioner along with a stabilizer, the same is offered at a combo price of ₹ 20,000 as against the original price of ₹ 30,000 (Air-conditioner ₹ 22,000 & stabilizer ₹ 8,000) if these are purchased separately. During October 2024, Jino Enterprises had made inter-State supply of 10 numbers of such combo products.

- (iv) Purchased business class air tickets for intra State travel from Guwahati Airport, Assam to Dibrugarh Airport, Assam for its executive employees relating to business of the concern. Basic air fare was ₹ 40,000 and airlines charges GST @ 2.5% CGST, SGST each on basic freight, in case the same is applicable.

Additional Information:

- (a) All the figures mentioned above are exclusive of taxes.
 (b) In respect of few of the invoices relating to F.Y. 2023-2024, involving ITC of CGST ₹ 20,000, SGST of ₹ 20,000, IGST ₹ 80,000 was not taken earlier. Jino Enterprises now want to avail credit in respect of such invoices in the current month.
 (c) The rates of GST applicable on various supplies are as follows:

Nature of Supply	CGST	SGST	IGST
Air-Conditioner, Parts and accessories (Except Stabilizers)	6%	6%	12%
Services	9%	9%	18%
Stabilizers	9%	9%	18%
Freight	6%	6%	12%

Calculate the amount of minimum CGST, SGST & IGST tax payable in cash by Jino Enterprises for the month of October, 2024.

Note: Working Notes (legal provisions) should form part of your answer.
 (PYP 8 Marks May '23)

Answer 24

Computation of minimum CGST, SGST and IGST payable in cash by Jino Enterprises for the month of October, 2024

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Intra-State supply of air-conditioners [Since goods are agreed to be delivered at customer's doorsteps, supply of air-conditioners along with transportation thereof is a composite supply which is treated as the supply of the principal supply (viz. airconditioners). Accordingly,	5,00,000 [4,00,000 + 1,00,000]	30,000 [5,00,00 0 × 6%]	30,000 [5,00,00 0 × 6%]	

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rate of principal supply, i.e. air-conditioners will be charged.]					
Intra-State supply of repairing services ⁶	[Since parts/ spares and repair services are not naturally bundled, they are taxable separately at the applicable rates.]	3,00,000	27,000 [3,00,000 × 9%]	27,000 [3,00,000 × 9%]	
Intra-State supply of parts / spares		50,000	3,000 [50,000 × 6%]	3,000 [50,000 × 6%]	
Inter-State supply of 10 combos of air conditioners and stabilizers [Since supplies are not naturally bundled and a single price is being charged, it is a mixed supply. It is treated as supply of that particular supply which attracts highest tax rate(i.e., stabilizers).]		2,00,000 [20,000 × 10]			36,000 [2,00,000 × 18%]
Total output tax			60,000	60,000	36,000
Less: Input Tax Credit [Refer Working Note below] [IGST credit is first utilized for payment of IGST liability. Remaining IGST credit has been utilised for payment of CGST and SGST in such proportion to keep the liability at its minimum. After exhausting IGST credit, CGST and SGST credits have been utilized. CGST credit is utilized for payment of CGST and SGST credit is utilised for the payment of SGST. ITC of CGST cannot be utilized for payment of SGST and vice versa.]			(22,000) (IGST)	(22,000) (IGST)	(36,000) (IGST)
			(21,000) (CGST)	(21,000) (SGST)	
Minimum net GST payable in cash			17,000	17,000	Nil

Working Note: Computation of ITC available

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Purchase of business class air tickets for travel from Assam [Not exempt, since air travel embarking from Assam is not being undertaken in economy class. Further, ITC is available since service is used in the course/furtherance of business.]	1,000 [40,000 × 2.5%]	1,000 [40,000 × 2.5%]	
Invoices relating to FY 2023-24 ⁷ [ITC in respect of any invoice can be taken up to 30th November following the end of FY to which such invoice relates or furnishing of the relevant annual return, whichever is earlier.]	20,000	20,000	80,000
Total ITC available			

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¹ Based on the view taken in Circular No. 47/21/2018 GST dated 08.06.2018.

However, it is also possible to consider the supply of repairing services along with parts/spares as a composite supply.

² It has been most logically assumed that the annual return for the FY 2023-24 has not yet been furnished.

Question 25

Sreshth Pvt. Ltd., a registered supplier of goods and services in Kolkata, has furnished the following information for the month of February:

S. No.	Particulars	Amount (₹)
(i)	Intra-State supply of taxable goods	4,00,000
(ii)	Purchase of goods destroyed due to fire before being put into the production process (It is an intra-State transaction)	5,50,000
(iii)	Services provided to a foreign diplomatic mission located in India (It is an intra-State transaction)	1,00,000
(iv)	Intra-State purchase of food items for being served to the customers, free of cost. (It is an intra-State transaction)	1,75,000
(v)	Goods transport services received from a GTA. GST is payable @ 5% (It is an inter-State transaction)	2,00,000
(vi)	Inter-State services provided to Dhruv Ltd. in respect of a business exhibition held in Delhi	10,000
(vii)	Inter-State security services provided to Torrent Higher Secondary School (unregistered under GST) for their annual day function organised in Katyani Auditorium outside the School campus	15,000
(viii)	Inputs to be received in 3 lots, out of which 2nd lot was received during the month	40,000

The company has following balances of ITC with it at the beginning of the tax period:

Particulars	Amount (₹)
CGST	57,000
SGST	Nil
IGST	50,000

Note:

- (v) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively unless otherwise mentioned.
- (vi) Both inward and outward supplies are exclusive of taxes, wherever applicable.
- (vii) All the conditions necessary for availing the ITC have been fulfilled.
- (viii) The turnover of Sreshth Pvt. Ltd. was ₹ 2.5 crore in the previous financial year.

Compute the minimum GST, payable in cash, by Sreshth Pvt. Ltd. for the month of February. Make suitable assumptions as required. (RTP Nov '22)

Answer 25

Computation of GST payable on outward supplies

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S. No.	Particulars	CGST T (₹)	SGS T (₹)	IGS T (₹)	Total (₹)
GST payable under forward charge					
(i)	Intra-State supply of goods [Note-1]	36,000	36,000	Nil	72,000
(ii)	Services provided to a foreign diplomatic mission located in India [Note-2]	9,000	9,000	Nil	18,000
(iii)	Services provided to Dhruv Ltd. in respect of a business exhibition held in Delhi [Note-3]	Nil	Nil	1,800	1,800
(iv)	Inter-State security services provided to Torrent higher secondary school for their annual day function to be held in Katyani Auditorium. [Note-4]	Nil	Nil	2,700	2,700
Total GST payable under forward charge		45,000	45,000	4,500	94,500
GST payable under reverse charge					
	GTA services availed [As per Notification No. 13/2017 CT(R) dated 28.06.2017, GST is payable by the recipient on reverse charge basis on the receipt of services of transportation of goods by road from a goods transport agency (GTA), provided GST is not payable @ 12% and services have been received by the specified recipient. Since in the given case, services have been received from a GTA where GST is payable @ 5% and recipient is one of the specified recipients, reverse charge provisions will be applicable.]	Nil	Nil	10,000	10,000

Notes

- Intra-State supply of goods is leviable to CGST and SGST.
- Services by a foreign diplomatic mission located in India are exempt vide Notification No. 12/2017 CT(R) dated 28.06.2017. However, no exemption is available with respect to the services provided to a foreign diplomatic mission located in India.
- Services by an organiser to any person in respect of a business exhibition are exempt vide Notification No. 12/2017 CT(R) dated 28.06.2017, only if such business exhibition is held outside India. Thus, in the given case, said service is taxable.
- Security services provided to Torrent higher secondary School for Annual Day function organised outside the school campus will be taxable as only the security services performed within the premises of the higher secondary school are exempt vide Notification No. 12/2017 CT(R) dated 28.06.2017.

Computation of total ITC available

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Opening ITC	57,000	Nil	50,000

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Add: Purchase of goods destroyed due to fire before being put into the production process [ITC is blocked on lost goods, stolen goods, destroyed goods and goods that are written off]	Nil	Nil	Nil
Add: Purchase of food items for being served to the customers, free of cost [Blocked credit]	Nil	Nil	Nil
Add: Goods transport services received from GTA [ITC is available for the services received from GTA since it is used in course or furtherance of business.]	Nil	Nil	10,000
Add: Inputs to be received in 3 lots, out of which 2nd lot was received during the month [In case of goods received in lots, ITC can be taken only upon receipt of the last lot]	Nil	Nil	Nil
Total ITC	57,000	Nil	60,000

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST (₹)	SGST (₹)	IGST (₹)	Total (₹)
GST payable under forward charge	45,000	45,000	4,500	94,500
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(10,500) IGST (3)	(45,000) IGST (2)	(4,500) IGST (1)	60,000
	(34,500) CGST			34,500
GST payable under reverse charge on GTA services [Payable in cash since tax payable under reverse charge, being not an output tax, cannot be set off against ITC and thus, will have to be paid in cash]			10,000	
Minimum GST payable in cash	Nil	Nil	10,000	Nil

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 first been used to pay SGST (after paying IGST liability) and then CGST to minimize cash outflow.

Question 26

M/s. Paisa Saver Bank Limited, a scheduled commercial bank, has furnished the following details for the month of September:

Particulars	Amount [₹ in lakh] excluding GST)
Extended housing loan to its customers	130
Processing fees collected from its customers on sanction of loan	20
Commission collected from its customers on bank guarantee	30
Interest income on credit card issued by the bank	40
Interest received on housing loan extended by the bank	35
Minimum balance charges collected from current account and saving account holder	03

Compute the value of taxable supply. (PYP 6 Marks, May '19)

Answer 26

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Paper 3 - Taxation**Computation of value of taxable supply of M/s. Paisa Saver Bank Limited for the month of September:**

Particulars	Amount in lakh (₹)
Housing loan extended to customers [Since money does not constitute goods, extending housing loan is not a supply.]	Nil
Processing fee collected on sanction of loan [Interest does not include processing fee on sanction of the loan. Hence, the same is taxable.]	20
Commission collected on bank guarantee [Any commission collected over and above interest on loan, advance or deposit are not exempt.]	30
Interest income on credit card issued by the bank [Services by way of extending loans in so far as the consideration is represented by way of interest are exempt from tax. However, interest involved in credit card services is specifically excluded from this exemption entry.]	40
Interest received on housing loan [Services by way of extending loans in so far as the consideration is represented by way of interest are exempt from tax.]	Nil
Minimum balance charges collected from current account and saving account holder [Any charges collected over and above interest on loan, advance or deposit are not exempt.]	03
Value of taxable supply	93

Section - B**Question 1**

Are post-supply discounts eligible for deduction from the value of supplies in all situations? Explain.

Answer 1

No, the post-supply discounts are not eligible for deduction from the value of supplies in all situations. Such discounts are allowed as a deduction from the value of supply only in the situations where the following two conditions are satisfied:

- (i) The discount is in terms of an agreement that existed at the time of supply and can be worked out invoice-wise; and
- (ii) Proportionate input tax credit (ITC) is reversed by the recipient - The buyer would have availed ITC of GST payable on the gross value specified in the invoice. Thus, when a credit note is issued to him by the supplier for the discount, the buyer will reverse the proportionate credit; consequent to which, the supplier's output tax liability will be reduced by the same amount.

If any of the above conditions are not satisfied, post-supply discount is not allowed as a deduction from the value of supply and consequently, GST liability of the supplier does not get reduced.

Question 2

'Consideration under GST law includes both monetary and non-monetary considerations.' Discuss the correctness or otherwise of the statement with reference to the definition of term 'consideration' provided under the CGST Act.

Answer 2

The statement is correct. As per the definition of the term 'consideration' provided under the CGST Act, consideration under the GST law includes both payment in money

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or otherwise made by the recipient or any other person and also takes within its sweep the monetary value of any act or forbearance for the supply by the recipient or any other person. Further, it includes within its ambit any deposit which is applied as a consideration for the supply but excludes the subsidies provided by the State or Central Government.

The term money has also been defined under the CGST Act and it not only includes cash (Indian as well as foreign currency) but also cheque, promissory note, bill of exchange, letter of credit, draft, pay order, traveler's cheque, money order, postal/electronic remittance or any such similar instrument recognized by RBI. Non-monetary consideration essentially means consideration in kind.

Question 3

Sharp Minds Institute provides coaching for engineering entrance examinations. Monthly fee charged by the Institute from a student is ₹ 10,000. The Institute is known for its commitment to provide education to underprivileged children. It trains 10 students every year for entrance examinations free of cost.

The Institute has received ₹ 3,00,000 as coaching fees during a month. Nav Jeevan, an NGO working in the area of education for underprivileged children, has given a subsidy of ₹ 10,000 (in lumpsum) during the month to the Institute as it is serving the cause of underprivileged children.

Determine the value of supply of education services made by Sharp Minds Institute during the month.

Answer 3

As per section 15(2)(e), the value of a supply includes subsidies directly linked to the price, excluding subsidies provided by the State Governments and the Central Government.

In the given case, though the subsidy is given by a non-Government body, the same is not includible in the value as it is given in lumpsum and not directly linked to the price of the supply being valued. Therefore, the value of supply made by Sharp Minds during the month is ₹ 3,00,000.

Question 4

Furniture Wala is a chain of retail showrooms selling both modern and classic furniture. In order to build strong customer association, the showroom provides free delivery of the furniture at the premises of the customers if the distance between the showroom and the customer's premises is upto 20 kms. Where the distance is more than 20 kms, the showroom charges a concessional freight of ₹ 10 for every additional km.

Ms. Leena Kapoor purchases a double bed, a dressing table and a centre table for ₹ 2,00,000 from Furniture Wala. Ms. Leena gets free delivery of the furniture as her residence is located at a distance of 18 km from the showroom. The showroom incurs an expenditure of ₹ 1000 for delivering the furniture at Ms. Leena's residence.

Determine the value of taxable supply made by Furniture Wala. Will your answer change if residence of Ms. Leena is 50 km away from the showroom?

Answer 4

In the given case, the showroom is not charging any amount towards freight from Ms. Leena but incurring the same out of its own pocket. Therefore, the same should not be added to the value. Hence, the value of supply will be ₹ 2,00,000.

However, the answer will change in the second case when the showroom will charge ₹ 300 for freight [(50km - 20 km) x ₹ 10] from Ms. Leena. In this case, the supply will be

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a composite supply (principle supply being the supply of furniture) and value thereof will be ₹ 2,00,300.

Question 5

AKJ Foods Pvt. Ltd. gets an order for supply of processed food from a customer. The customer wants the consignment tested for gluten and specified chemical residues. AKJ Foods Pvt. Ltd. does the testing before the supply and charges a testing fee for the same from the customer. AKJ Foods Pvt. Ltd. argues that such testing fees should not form part of the consideration for the sale as it is a separate activity.

Is the company's argument correct in the light of section 15?

Answer 5

Section 15(2) mandates addition of certain elements in the value of supply. Clause (c) of section 15(2) specifies that amount charged for anything done by the supplier in respect of the supply at the time of or before delivery of goods or supply of services shall be included in the value of supply.

Since AKJ Foods Pvt. Ltd. does the testing before the delivery of goods, the charges therefor will be included in the value of the consignment. Therefore, AKJ Foods Pvt. Ltd.'s argument is not correct. The testing fees should be added to the price to arrive at value of the consignment.

Question 6

A philanthropic association makes a substantial donation each year to a reputed private management institution to subsidize the education of low-income group students who have gained admission there. The fee for these individuals is reduced thereby coming to ₹ 3 lakh a year compared to ₹ 5 lakhs a year for other students. What would be the value of the service of coaching and instruction provided by the institution to the low-income group students?

Answer 6

As per section 15(2)(e), the value of a supply includes subsidies directly linked to the price, excluding State Government and Central Government subsidies. In this case, the subsidy is not received from the Government but from a philanthropic association. Therefore, the subsidy is to be added back to the price to arrive at the value, which comes to ₹ 5 lakh a year.

Question 7

Mezda Banners, an advertising firm, gives its customers an interest-free credit period of 30 days for payment. Its customer ABC paid for the supply 32 days after the supply of service. Mezda Banners waived the interest payable for delay of two days.

The Department wants to add interest for two days to the value of supply. Should notional interest be added to the value?

Answer 7

This is a supply that is valued as per transaction value under section 15(1) as the price is the sole consideration for the supply and the supply is made to unrelated person. The value of a supply includes certain elements like interest which are actually payable. Once waived, the interest is not payable and is therefore, not to be added to the value.

Question 8

Crunch Bakery Products Ltd sells biscuits and cakes through its dealers, to whom it charges the list price minus standard discount and pays GST accordingly. When goods remain unsold with the dealers, it offered additional discounts on the stock as an incentive to push the sales. Can this additional discount be reduced

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from the price at which the goods were sold, and concomitant tax adjustments made?

Answer 8

The discounts were not known or agreed for at the time of supply of goods to the dealers. Therefore, in terms of section 15(3), such discounts cannot be reduced from the price on which tax had been paid.

Question 9

Red Pepper Ltd., Delhi, a registered supplier, is manufacturing taxable goods. It provides the following details of taxable inter-State supply made by it during the month of March.

S. No.	Particulars	Amount (₹)
(i)	List price of taxable goods supplied inter-state (exclusive of taxes)	15,00,000
(ii)	Subsidy received from the Central Government for supply of taxable goods to Government School (exclusively related to supply of goods included at S. No. 1)	2,10,000
(iii)	Subsidy received from an NGO for supply of taxable goods to an old age home (exclusively related to supply of goods included at S. No. 1)	50,000
(iv)	Tax levied by Municipal Authority	20,000
(v)	Packing charges	15,000
(vi)	Late fee paid by the recipient of supply for delayed payment of consideration (Recipient has agreed to pay ₹ 6,000 in lump sum and no additional amount is payable by him)	6,000

The list price of the goods is net of the two subsidies received. However, the other charges/taxes/fee are charged to the customers over and above the list price. Calculate the total value of taxable supplies made by Red Pepper Ltd. during the month of March. Rate of IGST is 18%.

Answer 9

Computation of total value of taxable supplies made by Red Pepper Ltd. during the month of March

Particulars	Amount (₹)
List price of the goods	15,00,000
Subsidy amounting to ₹ 2,10,000 received from the Central Government [Since the subsidy is received from the Government, the same is not includible in the value in terms of section 15(2)(e)]	NIL
Subsidy received from NGO [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e)]	50,000
Tax levied by the Municipal Authority [Includible in the value as per section 15(2)(a)]	20,000

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Packing charges [Being incidental expenses, the same are includible in the value as per section 15(2)(c)]	15,000
Late fees paid by recipient of supply for delayed payment [Includible in the value as per section 15(2)(d) - As the amount of interest received is a lump sum amount, the same has to be taken as inclusive of GST] [₹ 6,000 x 100/118] rounded off	5,085
Total value of taxable supplies	15,90,085

Question 10

M/s. Flow Pro, a registered supplier, sold a machine to BP Ltd. It provides the following information in this regard:

S. No	Particulars	Amount (₹)
(i)	Price of the machine [excluding taxes and other charges mentioned at S. Nos. (ii) and (iii)]	25,000
(ii)	Third party inspection charges [Such charges were payable by M/s Flow Pro but the same have been directly paid by BP Ltd. to the inspection agency. These charges were not recorded in the invoice issued by M/s Flo Pro.]	5,000
(iii)	Freight charges for delivery of the machine [M/s Flow Pro has agreed to deliver the goods at BPLtd.'s premises]	2,000
(iv)	Subsidy received from the State Government on sale of machine under Skill Development Programme [Subsidy is directly linked to the price]	5,000
(v)	Discount of 2% is offered to BP Ltd. on the price mentioned at S. No. (i) above and recorded in the invoice	

Note: Price of the machine is net of the subsidy received.

Determine the value of taxable supply made by M/s Flow Pro to BP Ltd.

Answer 10

Computation of value of taxable supply made by M/s. Flo Pro to BP Ltd.

Particulars	Amount (₹)
Price of the machine [Since the subsidy is received from the State Government, the same is not includible in the value of supply in terms of section 15(2)(e)]	25,000
Third party inspection charges [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	5,000
Freight charges for delivery of the machine [Since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are added in the value of principal supply.]	2,000
Total	32,000

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Less: Discount @ 2% on ₹ 25,000 being price charged to BP Ltd. [Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply in terms of section 15(3)(a)]	500
Value of taxable supply	31,500

Question 11

Shri Krishna Pvt. Ltd., a registered supplier, furnishes the following information relating to goods sold by it to Shri Balram Pvt. Ltd

S. No	Particulars	Amount (₹)
(i)	Price of the goods [excluding taxes and other charges mentioned at S. Nos. (iii), (v) and (vi)]	1,00,000
(ii)	Municipal tax	2,000
(iii)	Inspection charges	15,000
(iv)	Subsidy received from Shri Ram Trust [Subsidy is directly linked to the goods supplied]	50,000
(v)	Late fees for delayed payment inclusive of GST [Shri Balram Pvt. Ltd. paid the late fees. However, these charges were ultimately waived by Shri Krishna Pvt. Ltd. and the amount was refunded to Shri Balram Pvt. Ltd. during the same month]	1,000
(vi)	Weighment charges [Such charges were paid by Shri Balram Pvt. Ltd. to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd.]	2,000

Note: Price of the goods is net of the subsidy received. Determine the value of taxable supply made by Shri Krishna Pvt. Ltd. to Shri Balram Pvt. Ltd.

Answer 11

Computation of value of taxable supply made by Shri Krishna Pvt. Ltd. to Shri Balram Pvt. Ltd.

Particulars	Amount (₹)
Price of the goods	1,00,000
Municipal tax [Includible in the value as per section 15(2)(a)]	2,000
Inspection charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value as per section 15(2)(c)]	15,000
Subsidy received from Shri Ram Trust [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e)]	50,000
Late fees for delayed payment [Not includible since the same is waived off]	Nil
Weighment charges paid to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd. [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the	2,000

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recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	
Value of taxable supply	1,69,000

Question 12

Koli Ltd., a registered supplier, has supplied machinery to Ghisa Ltd. (a supplier registered in the same State). It provides following particulars regarding the same:

S. No	Particulars	Amount (₹)
(i)	Price of machinery (exclusive of taxes and discounts)	5,50,000
(ii)	Part fitted in the machinery at the premises of Ghisa Ltd. [Amount has been paid by Ghisa Ltd. directly to the supplier. However, it was Koli Ltd.'s liability to pay the said amount. The said amount has not been recorded in the invoice issued by Koli Ltd.]	20,000
(iii)	Installation and testing charges for machinery, not included in price	25,000
(iv)	Discount @ 2% on price of the machinery mentioned at S. No. (i) above (recorded in the invoice)	
(v)	Koli Ltd. provides additional discount @ 1% at year end, based on additional purchase of other machinery for which adjustment is made at the end of the financial year without any change in individual transactions.	

Determine the value of taxable supply made by Koli Ltd. to Ghisa Ltd.

Answer 12

computation of value of taxable supply made by Koli Ltd. to Ghisa Ltd.

Particulars	Amount (₹)
Price of machinery (exclusive of taxes and discounts)	5,50,000
Amount paid by Ghisa Ltd. directly to the supplier for the part fitted in the machinery [Any amount that the supplier is liable to pay in relation to a supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods is includible in the value of supply in terms of section 15(2)(b).]	20,000
Installation and testing charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value of supply in terms of section 15(2)(c).]	25,000
Less: Discount @ 2% on the price of machinery [₹ 5,50,000 x 2%] [Since discount is given at the time of supply of machinery and recorded in the invoice, the same is deductible from the value of the supply in terms of section 15(3)(a).]	11,000
Less: Additional 1% discount at year end [Though the additional discount is established before/at the time of supply, it is not deductible from the value of supply in	Nil

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terms of section 15(3)(b) as the same is not linked to any specific transaction and is adjusted by the parties at the end of the financial year.]	
Value of taxable supply	5,84,000

Question 13(Illustration)

Black and White Pvt. Ltd. has provided the following particulars relating to goods sold by it to Colourful Pvt. Ltd.

Particulars	Rs.
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods	5,000
Packing charges (not included in price above)	1,000

Black and White Pvt. Ltd. received ₹ 2,000 as a subsidy from a NGO on sale of such goods. The price of ₹ 50,000 of the goods is after considering such subsidy. Black and White Ltd. offers 2% discount on the list price of the goods which is recorded in the invoice for the goods. Determine the value of taxable supply made by Black and White Pvt. Ltd.

Answer 13

Computation of value of taxable supply

Particulars	₹
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods [Includible in the value as per section 15(2)(a)]	5,000
Packing charges [Includible in the value as per section 15(2)(c)]	1,000
Subsidy received from a non-Government body [Since subsidy is received from a non-Government body, the same is included in the value in terms of section 15(2)(e)]	<u>2,000</u>
Total	58,000
Less: Discount @ 2% on ₹ 50,000 [Since discount is known at the time of supply and recorded in invoice, it is deductible from the value in terms of section 15(3)(a)]	<u>1,000</u>
Value of taxable supply	57,000

Question 14 (Illustration)

Samridhhi Advertisers conceptualized and designed the advertising campaign for a new product launched by New Moon Pvt Ltd. for a consideration of ₹ 5,00,000. Samridhhi Advertisers owed ₹ 20,000 to one of its vendors in relation to the advertising service provided by it to New Moon Pvt Ltd. Such liability of Samridhhi Advertisers was discharged by New Moon Pvt Ltd. New Moon Pvt Ltd. delayed the payment of consideration and thus, paid ₹ 15,000 as interest. Assume the rate of GST to be 18%. Determine the value of taxable supply made by Samridhhi Advertisers.

Answer 14

Computation of value of taxable supply

Particulars	₹
Service charges	5,00,000
Payment made by New Moon Pvt. Ltd to vendor of Samridhhi Advertisers [Liability of the supplier being discharged by the recipient, is includible in the value in terms of section 15(2)(b)]	20,000

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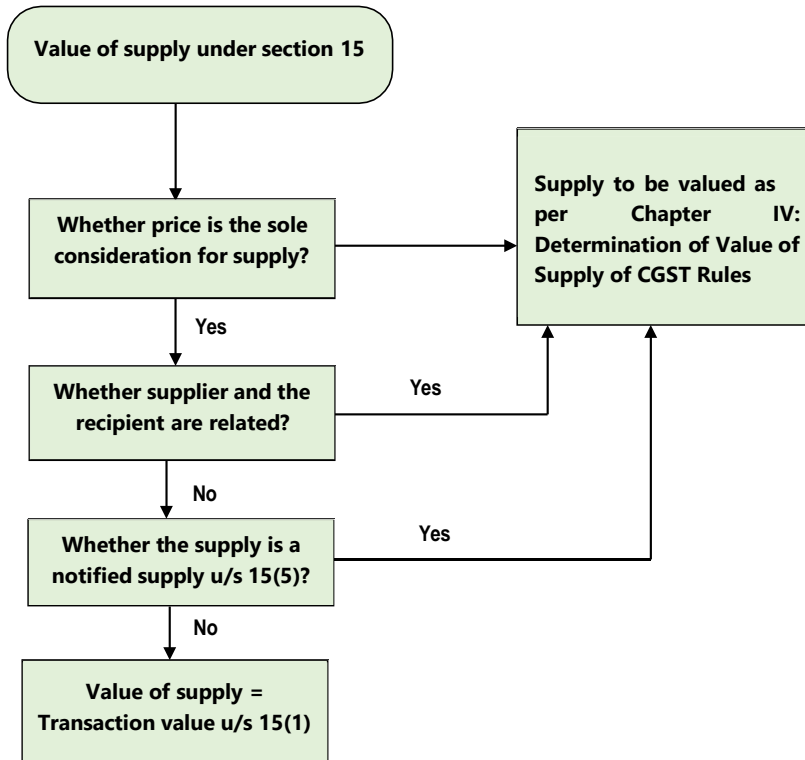
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Interest for delay in payment of consideration [Includible in the value in terms of section 15(2)(d) – Refer note below] (roundedoff)	12,712
Value of taxable supply	5,32,712

Note: The interest for delay in payment of consideration will be includible in the value of supply but the time of supply of such interest will be the date when such interest is received in terms of section 13(6). Such interest has been assumed to be inclusive of GST and thus, the value has been computed by making back Calculations $\left[\frac{\text{Interest}}{100+\text{tax rate}} \times 100 \right]$ It is also possible to assume the interest to be exclusive of GST. In that case, the value of supply will work out to be ₹ 5,35,000. The scheme of valuation as provided under section 15 is depicted by way of a diagram given below:



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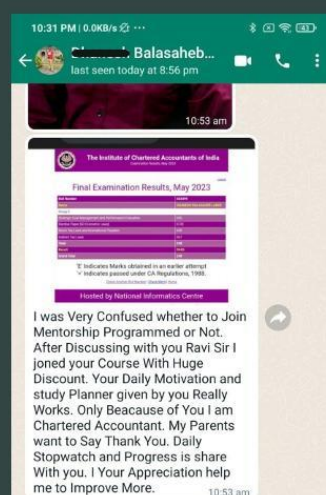
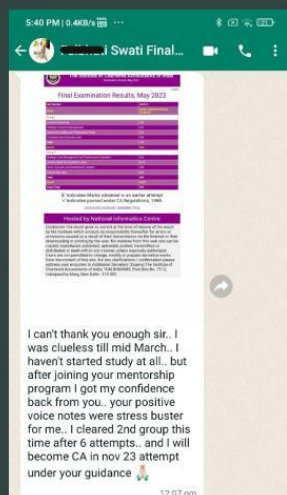
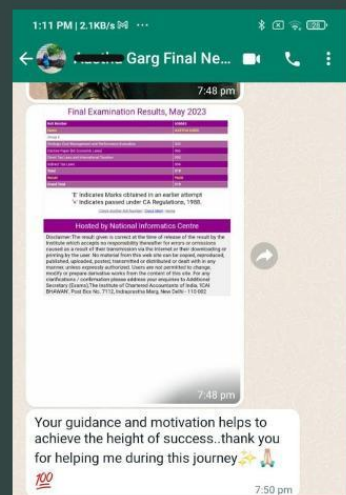
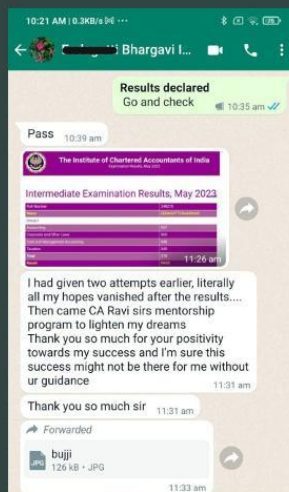
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Paper 3 - Taxation

Chapter 8 Input Tax Credit

Attempt wise Distribution

Attempts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q5		Q6					Q4, Q7, Q8	Q2, Q3, Q9	
RTP				Q10	Q1							
Q & A												
MTP		Q14, Q17, Q18, Q23	Q19, Q22		Q26			Q21	Q20	Q24	Q15, Q16, Q25	
PYP	Q1, Q5	Q4, Q35, Q39	Q36		Q6, Q34	Q7	Q33, Q37		Q3, Q38	Q2		
RTP	Q9, Q27, Q32	Q13, Q28, Q31	Q12, Q30		Q8, Q10, Q11, Q29			Q40				

Section – A MULTIPLE CHOICE QUESTIONS (MCQS)

1. **M/s. Comfortable (P) Ltd. is registered under GST in the State of Odisha. It is engaged in the business of manufacturing of iron and steel products. It has received IT engineering services from M/s. High-Fi Infotech (P) Ltd. for ₹ 11,00,000/- (excluding GST @ 18%) on 28-Oct-20XX. Invoice for service rendered was issued on 5-Nov-XX. M/s Comfortable (P) Ltd. made part-payment of ₹ 4,20,000/- on 30-Nov-XX. Being unhappy with service provided by M/s High-fi Infotech (P) Ltd., it did not make the balance payment. Deficiency in service rendered was made good by M/s High-Fi Infotech (P) Ltd. by 15-Feb-XY. M/s. Comfortable (P) Ltd. made payment of ₹ 3,00,000/- on 15-Feb-XY and balance payment was made on 6-June-20XY, i.e. after 180 days of issue of invoice. Input tax credit available in respect of IT engineering services received from M/s. High-Fi Infotech (P) Ltd. in financial year 20XX-XY:**
- (a) ₹ 1,98,000/-
 (b) Nil
 (c) ₹ 64,068/-
 (d) ₹ 1,09,831/- (RTP May '20)

Ans: (a)

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

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Rajasthan, for ₹ 65,000

All the above amounts are exclusive of taxes. The applicable rates of CGST, SGST and IGST are 9%, 9% and 18% respectively on inward as well as outward supplies. There is no opening balance of ITC. GST liability payable in cash is-

- (a) CGST ₹ 1,800 & SGST ₹ 1,800
- (b) SGST ₹ 3,600
- (c) IGST ₹ 3,600
- (d) CGST ₹ 3,600

(MTP 2 Marks April '23, RTP Nov'20)

Ans: (c)

- 3. PZY Ltd. is engaged in manufacturing of motor car. The company paid following amount of GST to its suppliers against the invoices raised to it. Compute the amount of ineligible input tax credit under GST law:-**

S. No.	Particulars	GST Paid (₹)
1.	General insurance taken on cars manufactured by PZY Ltd.	1,00,00,000
2.	Buses purchased for transportation of employees (Seating capacity 23)	25,00,000
3.	Life and health insurance for employees under statutory obligation	6,00,000
4.	Outdoor catering in Diwali Mela organized for employees	3,50,000

- (a) ₹ 9,50,000
- (b) ₹ 3,50,000
- (c) ₹ 1,31,00,000
- (d) ₹ 28,50,000 **(MTP 2 Marks March '23, RTP Nov'21)**

Ans: (b)

- 4. Medhavi Industries, engaged in manufacturing of taxable goods, purchased cars for official use of its employees. Amount of GST paid on purchase of the cars amounted to ₹ 2,80,000. It also availed outdoor catering services for a marketing event organised for its prospective customers. Amount of GST paid on said services was ₹18,000. Compute the total amount of ITC that can be claimed by Medhavi Industries.**

- (a) ₹ 2,98,000
- (b) ₹18,000
- (c) ₹2,80,000
- (d) Nil **(MTP 2 Marks Sep'22)**

Ans: (d)

- 5. A supplier takes deduction of depreciation on the GST component of the cost of capital goods as per Income- tax Act, 1961. The supplier can-**

- (a) avail only 50% of the said tax component as ITC
- (b) not avail ITC on the said tax component
- (c) avail 100% ITC of the said tax component
- (d) avail only 25% of the said tax component as ITC **(MTP 1Marks, March'19)**

Ans: (b)

- 6. Akash Ltd. a registered person in Punjab has purchased Air Conditioner for invoice value of ₹ 32,000 (which includes GST at 18%) from Mukesh Ltd.**

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registered in Punjab. Akash Ltd. had capitalized Air Conditioner in his books of accounts for full value of ₹ 32,000 and taking the benefit of depreciation on the same. Keeping in view of the above situation the input tax credit which Akash Ltd. is required to take in his books of accounts will be;

- (a) Nil
 - (b) ₹4,881
 - (c) ₹5,760
 - (d) ₹2,880
- (MTP 2 Marks, Oct'20)

Ans: (a)

7. Ganesh Traders, engaged in manufacturing of taxable as well as exempt goods, purchased a machinery worth ₹ 17,70,000 (₹ 15,00,000 plus ₹ 2,70,000 GST). It capitalized full amount including taxes in the books of accounts and claimed depreciation on it as per provisions of the Income Tax Act, 1961. Compute the amount of ITC that can be claimed by Ganesh Traders?

- (a) ₹ 2,70,000
 - (b) Zero
 - (c) In proportion of taxable and exempt supply
 - (d) By decreasing percentage points as prescribed
- (MTP 2 Marks March 22)

Ans : (b)

8. ITC on _____ is not blocked.

- (a) trucks purchased by a company for transportation of its finished goods
 - (b) aircraft purchased by a manufacturing company for official use of its CEO
 - (c) general insurance taken on a car used by employees of a manufacturing company for official purposes
 - (d) cars purchased by a manufacturing company for official use of its employees
- (MTP 2 Marks Oct'22)

Ans :(a)

9. Mr. Raghu avails services of Mr. Raja, a Chartered Accountant, as under-

- (i) Audit of financial accounts of Mr. Raghu ₹ 55,000
- (ii) Tax audit and annual accounts filing of Mr. Raghu ₹ 10,000
- (iii) Income-tax return filing of Mr. Raghu 's wife (salaried-return) ₹ 5,000

All the above amounts are exclusive of taxes and the applicable rate of GST on these services is 18%.

The accountant of Mr. Raghu has booked the entire expenses of ₹ 70,000 plus GST in the books of account. Mr. Raghu is eligible to take input tax credit of -

- (a) ₹ 13,500
 - (b) ₹ 11,700
 - (c) ₹ 9,900
 - (d) ₹ 1,800
- (MTP 2 Marks April '23, RTP Nov'20)

Ans: (b)

10. Calculate the amount of eligible input tax credit-

S. No.	Particulars	GST paid (₹)
1.	A Mini bus having seating capacity of 15 persons (including driver) used for running on hire	15,00,000
2.	Car having seating capacity of 8 people used for business purposes	1,00,00,000
3.	Car having seating capacity of 4 persons used for imparting training on driving such car	50,00,000
4.	Special purpose vehicle having seating capacity of 2	60,00,000

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	persons used for transportation of goods	
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- (a) ₹ 2,25,00,000/-
 (b) ₹ 2,10,00,000/-
 (c) ₹ 1,25,00,000/-
 (d) ₹ 75,00,000/-

(RTP Nov '19)

Ans: (c)

Question & Answers

Question 1

Mr. Ajay, a registered supplier of goods, pays GST under regular scheme and provides the following information for the month of August 2023:

	Particulars	(₹)
(I)	Inter-state taxable supply of goods	10,00,000
(ii)	Intra state taxable supply of goods	2,00,000
(iii)	Intra state purchase of taxable goods	5,00,000

He has the following input tax credit at the beginning of August 2023:

Nature	ITC Amount in (₹)
CGST	20,000
SGST	30,000
last	25,000

Rate of CGST, SGST and IGST are 9%, 9% and 18% respectively.

Both inward and outward supplies are exclusive of taxes wherever applicable.

All the conditions necessary for availing the ITC have been fulfilled. Compute the net GST payable by Mr. Ajay for the month of August 2023.

(PYP 6 Marks, May'18)

Answer 1

Computation of net GST payable by Mr. Ajay for the month of August, 2023

Working of GST payable on Outward supplies

Syno d.	Particulars	(₹)	GST (₹)
(I)	Intra-State taxable supply of goods		
	CGST @ 9% on ₹ 2,00,000	18,000	
	SGST @ 9% on ₹ 2,00,000	18,000	36,000
(ii)	Inter-State taxable supply of goods		
	IGST @ 18% on ₹ 10,00,000		1,80,000

Computation of total ITC

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening ITC	20,000	30,000	25,000
Add: ITC on Intra-State purchases of taxable goods valuing ₹ 5,00,000	45,000	45,000	
Total ITC	65,000	75,000	25,000

Computation of GST payable from cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
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Paper 3 - Taxation

		9% (^)	
GST payable	18,000	18,000	1,80,000
Less: ITC	(18,000)-CGST	(18,000)-SGST	(25,000)-IGST
			(47,000)-CGST
			(57,000)-SGST
Net GST payable	Nil	Nil	51,000

Note:

ITC of IGST, CGST & SGST have been used to pay IGST in that order

Question 2

Charm Limited, registered under GST in the State of Jharkhand, manufactures cosmetic products and appointed Mr. Handsome of Mumbai, who is registered under GST in the State of Maharashtra, as their Del-credere agent (DCA) to sell their products. Being a DCA, he agrees to raise invoices in his own name and also guarantees for the realization of payments from customers to Charm Limited. In order to realize the payments from customers on time, he extends short term transaction based loans to them and charges interest for the same. Mr. Handsome provides you the following details of transactions carried out during the month of March 2024:

Sl. No.	Particulars	Amount in (₹)
	Outward supply:	
i.	Goods sold by Mr. Handsome in his DCA capacity (intra-State transaction)	2,80,000
ii.	Interest earned from the above customers for short term credit facility provided for timely payment of dues. (intra-State transaction)	20,000
iii.	Commission bill raised on Charm Limited (inter-State transaction) in respect of DCA services provided.	30,000
	Inward supply:	
iv	Inter-State supply of goods received from Charm Limited. Being a DCA, no consideration was paid. Value under section 15 - ₹ 2,00,000	Nil
v.	Received training in marketing and distribution from Charm Limited as per DCA agreement, free of cost. Company charges ₹ 75,000 for such training when it provides the same to others.	Nil

Applicable rate of tax on both inward and outward supplies is 9% each for CGST and SGST and 18% for IGST. Amounts given above are exclusive of taxes wherever applicable. Subject to the information given above, necessary conditions are complied with for availment of input tax credit. You are required to calculate the gross GST liability and eligible input tax credit for the month of March 2024 of Mr. Handsome. Brief notes should form part of your answer for treatment of items in Sl. No. (i) to (v). (PYP 6 Marks Nov '22)

Answer 2

Computation of gross GST liability of Mr. Handsome for the month of March 2024

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Particulars		CGST (₹)	SGST (₹)	IGST (₹)
Goods sold by Mr. Handsome in his DCA capacity	2,80,000	27,000 [3,00,000	27,000 [3,00,000	
Add: Interest earned for short term credit facility provided to above customers	20,000	× 9%]	× 9%]	
[Interest included in the value of supply of the goods sold since where DCA is an agent under Schedule - I of the CGST Act, short term credit facility provided by DCA to the buyer is subsumed in the supply of the goods by the DCA to the buyer.]				
Commission charged for DCA services [Being taxable supply of services.]				5,400 [30,000 × 18%]
Gross GST liability		27,000	27,000	5,400

Note: Since the invoice for goods sold is issued by the DCA – Mr. Handsome in his own name, he would fall under the ambit of an agent under Schedule – I of the CGST Act.

Computation of eligible ITC for the month of March 2024

Particulars	CGST T (₹)	SGST T (₹)	IGST (₹)
Inward supply of goods from Charm Limited free of cost [Supply of goods by principal – Charm Limited to the agent – Mr. Handsome qualifies as supply even though it is made without consideration.]			36,000 [2,00,000 × 18%]
Training in marketing and distribution received from Charm Limited free of cost [Since no consideration is charged for the services provided, said services do not qualify as supply. As no GST is paid on the same, ITC is not available]	--	--	--
Total ITC available	Nil	Nil	36,000

Question 3

Zeon Ltd., a GST registered supplier located in Ranchi, Jharkhand, is engaged in the manufacturing of washing machines & mixer grinders. It provides you the details of various activities undertaken during the month of September, 2023 as follows:

Sl. No.	Particulars	Amount (₹)
(i)	Outward supplies made during the month	
	a. Within Jharkhand	₹ 24,00,000
	b. Outside Jharkhand	₹ 5,00,000
		29,00,000
(ii)	Purchase of raw materials from registered dealers within Jharkhand which includes materials worth ₹ 2,00,000 purchased from Mr. Krishna, a registered person who is	7,00,000

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Paper 3 - Taxation

	paying tax under composition scheme.	
(iii)	Bus purchased from a registered dealer in Tatanagar, Jharkhand. Bus used to ferry its 25 workers to and from factory.	12,00,000

Assume the rates of GST applicable on various supplies as follows:

Nature of supply	CGST	SGST	IGST
Composition supplies	0.5%	0.5%	-
Bus	14%	14%	28%
Raw material	6%	6%	12%
Washing machines & mixer grinders	9%	9%	18%

Opening balances of input tax credit as on 01/09/2021 were as follows:

CGST (₹)	SGST (₹)	IGST (₹)
20,000	5,000	95,000

Note:

- All the figures mentioned above are exclusive of taxes.
- Both inward & outward supplies within the State of Jharkhand are to be considered intra-State supplies and outside the State of Jharkhand are inter-State supplies.
- Subject to information given above, all the other conditions necessary for availing ITC have been fulfilled.

Calculate the amount of net minimum GST payable in cash by Zeon Ltd. for the month of September, 2023. Brief and suitable notes should form part of your answer. (PYP 8 Marks May'22)

Answer 3

Computation of minimum net GST payable in cash by Zeon Ltd. for the month of September 2023

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Outward supplies made within Jharkhand	2,16,000	2,16,000	
	[24,00,000 × 9%]	[24,00,000 × 9%]	
Outward supplies made outside Jharkhand			90,000
			[5,00,000 × 18%]
Total output tax	2,16,000	2,16,000	90,000
Less: Input Tax Credit [Refer Working Note below]	-	5,000 (IGST)	(90,000) (IGST)
[IGST credit be first utilized for payment of IGST liability. Remaining IGST credit has been utilized for payment of SGST liability since the SGST liability is to be kept at minimum. After exhausting IGST credit, CGST and SGST credit to be utilized. CGST credit to be utilized for payment of CGST and SGST credit to be utilized for the payment of SGST. ITC of CGST cannot be utilized for payment of SGST and vice	2,16,000 (CGST)	2,03,000 (SGST)	

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versa.]			
Minimum net GST payable in cash	Nil	8,000	Nil
ITC to be carried forward next month	2,000		

Working Note:**Computation of ITC available**

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Opening balance	20,000	5,000	95,000
Purchase of raw materials from registered dealers within Jharkhand [7,00,000 – 2,00,000] [ITC on purchases of goods worth ₹ 2,00,000 on which tax has been paid under composition scheme is blocked. ITC on remaining purchases worth ₹ 5,00,000 is available, being supply of goods used/intended to be used in the course/furtherance of business.]	30,000 [5,00,000 × 6%]	30,000 [5,00,000 × 6%]	
Bus purchased from dealer in Jharkhand used to ferry 25 workers to and from factory [ITC on motor vehicles for transportation of persons with seating capacity > 13 persons (including the driver) used for any purpose is allowed.]	1,68,000 [12,00,000 × 14%]	1,68,000 [12,00,000 × 14%]	
Total ITC available	2,18,000	2,03,000	95,000

Question 4

Mr. Thiraj, a registered supplier of service in Bangalore (Karnataka State) has provided the following information for the month of February 2024:

	Particulars	Amount in `
(I)	Intra-state taxable supply of service	5,20,000
(ii)	Legal fee paid to a Lawyer located within the state	20,000
(iii)	Rent paid to the State Govt. for his office building	30,000
(iv)	Received for services towards conduct of exams in Love all University, Pune (recognized by law), being an inter-state transaction	16,000

Compute the net GST liability (CGST, SGST or IGST) of Mr. Thiraj for the month of February, 2024.

Rate of CGST, SGST and IGST are 9%, 9% and 18% respectively.

All the amounts given above are exclusive of taxes. (PYP 6 Marks, Nov'18)

Answer 4

Computation of net GST liability by Mr. Thiraj for the month of February, 2024

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Synod	Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Output supply					
(I)	Intra-State taxable supply of services	5,20,000	46,800	46,800	
(iv)	Services towards conduct of exams in Love all University, Pune [Note-1]	16,000			Exempt
Inward supply					
(ii)	Legal fee paid to lawyer located within State [Note-2]	20,000	1,800	1,800	
(iii)	Rent paid to State Government for Office Building [Note-3]	30,000	2,700	2,700	
Total tax liability			51,300	51,300	
Less: Cash paid towards tax payable under reverse charge [A] [Note-4]			(4,500)	(4,500)	
Output tax payable against which ITC can be set off			46,800	46,800	
Less: ITC of tax paid on legal fees and rent			(4,500)	(4,500)	
Output tax payable after set off of ITC[B]			42,300	42,300	
Net GST liability [A] + [B]			46,800	46,800	

Notes: -

Since Love all University provides education recognized by law¹, it is an educational institution and services provided to an educational institution, by way of conduct of examination by such institution are exempt from GST. 1 It has been logically assumed that the education provided by the Love all University is recognized by Indian law.

1. In case of legal services provided by an advocate to any business entity GST is payable under reverse charge by the recipient of service².
2. In case of services supplied by, inter alia, State Government by way of renting of immovable property to a person registered under the CGST Act, GST is payable under reverse charge by the recipient of service
3. The amount available in the electronic credit ledger may be used for making payment towards output tax. However, tax payable under reverse charge is not an output tax. Therefore, tax payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.

Question 5

Fun Pharma Private Limited, a registered supplier is engaged in the manufacture of taxable goods. The company provides the following information of GST paid on the purchases made/input services availed by it

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during the month of September 2023:

	Particulars	GST paid (₹)
(I)	Purchase of cabs used for the transportation of its employees	3,30,000
(ii)	Inputs consisting of three lots, out of which first lot was received during the month	1,25,000
(iii)	Capital Goods (out of three items, invoice for one item was missing and GST paid on that item was ₹ 25,000)	2,50,000
(iv)	Outdoor catering service availed on Women's day	72,000

Determine the amount of input tax credit available with M/s Fun Pharma Private Limited for the month of September, 2023 by giving necessary explanations for treatment of various items. All the conditions necessary for availing the input tax credit have been fulfilled. (PYP 4 Marks, May'18)

Answer 5

Computation of input tax credit (ITC) available with Fun Pharma Private Limited for the month of September, 2023

Particulars	₹
Purchase of cabs used for the transportation of its employees [Note-1]	Nil
Inputs consisting of three lots, out of which first lot was received during the month [Note-2]	Nil
Capital goods [Note-3]	2,25,000
Outdoor catering service availed on Women's day [Note-4]	Nil
Total ITC	2,25,000

Notes: -

- Section 17 of CGST Act, 2017 provides that ITC on motor vehicles can be availed, inter alia, when they are used for making the taxable supply of transportation of passengers i.e., if the taxable person is in the business of transport of passengers. In the given case, since the supplier is a manufacturer, it cannot avail credit on cabs used for transportation of its employees.
- When inputs are received in instalments, ITC can be availed only on receipt of last instalment in terms of section 16 of CGST Act, 2017.
- ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC vide section 16 of CGST Act, 2017.
- ITC on outdoor catering is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply in terms of section 17 of CGST Act, 2017.

Question 6

Who can impose restrictions on utilization of input tax credit (ITC) available in the electronic credit ledger and under what circumstances can restrictions be imposed under the CGST Rules 2017? (PYP 5 Marks, Nov'20)

Answer 6

The Commissioner or an officer (not below the rank of an Assistant Commissioner) authorised by him has been empowered to impose restrictions on utilization of ITC available in the electronic credit ledger.

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The restrictions can be imposed under the CGST Rules, 2017 in the following circumstances:

- (i) ITC has been availed on the basis of tax invoices/valid documents -
 - issued by a non-existent supplier or by a person not conducting any business from the registered place of business; or
 - without receipt of goods and/or services; or
 - the tax in relation to which has not been paid to the Government.
- (ii) Registered person availing ITC has been found non-existent or not to be conducting any business from the registered place of business; or
- (iii) Registered person availing ITC is not in possession of tax invoice/valid document.

Question 7

Star Ltd., a registered supplier in Karnataka has provided the following details for supply of one machine:

	Particulars	Amount in (₹)
(1)	List price of machine supplied [exclusive of items given below from (2) to (4)]	80,000
(2)	Tax levied by Local Authority on sale of such machine	6,000
(3)	Discount of 2% on the list price of machine was provided (recorded in the invoice of machine)	
(4)	Packing expenses for safe transportation charged separately in the invoice	4,000

Star Ltd. received ₹ 5,000 as subsidy from a NGO on sale of each such machine, The Price of ₹ 80,000 of the machine is after considering such subsidy.

During the month of February, 2024, Star Ltd. supplied three machines to Intra-State customers and one machine to Inter-State customer.

Star Ltd. purchased inputs (intra-State) for ₹ 1,20,000 exclusive of GST for supplying the above four machines during the month.

The Balance of ITC at the beginning of February, 2020 was:

CGST	SGST	IGST
₹ 18,000	₹ 4,000	₹ 26,000

Note:

- (i) Rate of CGST, SGST and IGST to be 9%, 9% and 18% respectively for both inward and outward supplies.
- (ii) All the amounts given above are exclusive of GST.
- (iii) All the conditions necessary for availing the ITC have been fulfilled.

Compute the minimum net GST payable in cash by Star Ltd. for the month of February, 2024. (PYP 8 Marks, Jan'21)

Answer 7

Computation of value of taxable supply

Particulars	Amount (₹)
List price of the machine	80,000
Add: Tax levied by Local Authority on the sale of machine [Tax other than GST, if charged separately, are includible in the value in terms of section 15 of the CGST Act, 2017.]	6,000

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Add: Packing expenses for safe transportation [Includible in the value as per section 15 of the CGST Act, 2017.]	4,000
Add: Subsidy received from a NGO on sale of each machine [Subsidy received from a non-Government body, and which is directly linked to the price, the same is included in the value in terms of section 15 of the CGST Act, 2017.]	5,000
Total	95,000
Less: Discount @ 2% on ₹ 80,000 [Since discount is known at the time of supply and recorded in invoice, it is deductible from the value in terms of section 15 of the CGST Act, 2017.]	1,600
Value of taxable supply	93,400

Computation of minimum net GST payable in cash by Star Ltd.

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Sale of machine [Intra-State sales = ₹ 93,400 × 3 machines = ₹ 2,80,200 Inter-State sales = ₹ 93,400 × 1 machine = ₹ 93,400]	25,218 2,80,200 × 9%]	25,218 2,80,200 × 9%]	16,812 93,400 × 18%]
Total output tax	25,218	25,218	16,812
Less: Set off of IGST against IGST and SGST [IGST credit first be utilized towards payment of IGST, remaining amount can be utilized towards CGST and SGST in any order and in any proportion]		(9,188)	(16,812)
Less: Set off of CGST against CGST and SGST against SGST [CGST credit cannot be utilized towards payment of SGST and vice versa.]	(25,218)	(14,800)	
Minimum net GST payable in cash	Nil	1,230	

Working Note:**Computation of total ITC available**

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Opening balance of ITC	18,000	4,000	26,000
Add: Inputs purchased during the month	10,800 [₹ 1,20,000 × 9%]	10,800 [₹ 1,20,000 × 9%]	
Total ITC available	28,800	14,800	26,000

Question 8

Mr. X, a supplier of goods, pays GST under regular scheme. The amount of input tax credit (ITC) available and output tax liability under different tax heads is as under:-

Head	Output tax liability	ITC
IGST	2,000	4,000
CGST	800	2,000
SGST/ UTGST	2,500	500

Compute the minimum GST payable in cash by Mr. X. Make suitable assumptions as required. (RTP May '20)

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Answer 8

Mr. X can use the ITC to pay his output tax liability. The order of utilisation of ITC is as under:-

- (i) IGST credit should first be utilized towards payment of IGST.
- (ii) Remaining IGST credit, if any, can be utilized towards payment of CGST and SGST/UTGST in any order and in any proportion.
- (iii) Entire ITC of IGST should be fully utilized before utilizing the ITC of CGST or SGST/UTGST.
- (iv) ITC of CGST should be utilized for payment of CGST and IGST in that order.
- (v) ITC of SGST /UTGST should be utilized for payment of SGST/UTGST and IGST in that order. However, ITC of SGST/UTGST should be utilized for payment of IGST, only after ITC of CGST has been utilized fully.

CGST credit cannot be utilized for payment of SGST/UTGST and SGST/UTGST credit cannot be utilized for payment of CGST.

Computation of minimum GST payable in cash

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
GST payable	800	2,500	2,000
Less: ITC	- (800)-CGST	(2,000)-IGST (500) – SGST	(2,000)-IGST
Net GST payable in cash	Nil	Nil	Nil

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, it is beneficial to use ITC of IGST to pay SGST (after paying IGST liability) to minimize cash outflow.

Question 9

- (i) **Tirupati Traders, a registered supplier of goods, pays GST [CGST & SGST or IGST, as the case may be] under regular scheme. It has furnished the following particulars for a tax period:-**

Particulars	₹
Value of intra-State supply of goods	12,000
Value of intra-State purchase of goods	10,000

Note:

- (i) **Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.**
- (ii) **Both inward and outward supplies are exclusive of taxes, wherever applicable.**
- (iii) **All the conditions necessary for availing the input tax credit have been fulfilled.**

Compute the net GST payable by Tirupati Traders during the given tax period assuming that there is no opening balance of input tax credit (ITC). Make suitable assumptions wherever required.

- (ii) **Govind, a registered supplier, is engaged in providing services in the neighbouring States from his registered office located in Mumbai. He has furnished the following details in respect of the inward and outward supplies made during a tax period:-**

Particulars	(₹)
Inter-State supply of services	1,80,000
Receipt of goods and services within the State	1,00,000

Assume the rates of taxes to be as under:-

Particulars	Rate
CGST	9%

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SGST	9%
IGST	18%

Note:

- (i) Both inward and outward supplies are exclusive of taxes, wherever applicable.
- (ii) All the conditions necessary for availing the input tax credit have been fulfilled.

Compute the net GST payable by Govind during the given tax period. Make suitable assumptions if required. (RTP May '18)

Answer 9

(I) Computation of net GST payable

Particulars	CGST (₹)	SGST (₹)
GST payable on intra-State supply of goods [Being an intra-State supply, CGST and SGST is payable on the same]	1,080 (₹12,000 × 9%)	1,080 (₹12,000 × 9%)
Less: Input tax credit (ITC) on intra-State purchase of goods [CGST and SGST paid on the intra-State purchases of goods]	900 (₹10,000 × 9%)	900 (₹10,000 × 9%)
Net GST payable	180	180

(II) Computation of net GST payable by Govind

Particulars	₹
IGST @ 18% payable on inter-State supply of services [Being an inter-State supply, IGST is payable on the same in terms of section 5 of the IGST Act, 2017]	32,400 [1,80,000 × 18%]
Less: ITC of CGST @ 9% paid on intra-State receipt of goods and services	9,000
[Cross utilisation of CGST towards IGST]	[1,00,000 × 9%]
Less: ITC of SGST @ 9% paid on intra-State receipt of goods and services	9,000 [1,00,000 × 9%]
[Cross utilisation of SGST towards IGST]	
Net GST payable in cash	14,400

Note:

2. CGST shall first be utilised towards payment of CGST and the amount remaining, if any, be utilised towards the payment of IGST [Section 49 of the CGST Act, 2017].
3. SGST shall first be utilised towards payment of SGST and the amount remaining, if any, may be utilised towards the payment of IGST [Section 49 of the CGST Act, 2017].

Question 10

'XY' of Kolkata is engaged in supply of various goods and services. It pays GST under regular scheme. The following information is provided by it for the month of July:

Payments	Amount (₹)	Receipts	Amount (₹)
Inter-State purchases of office stationery	1,40,000	Inter-State supply of office stationery	2,00,000
Repairing of lorry used to transport goods from warehouse to clients' location [Intra-State supply]	1,00,000	Intra-State supply of 500 combi packs containing one calculator and one diary	4,00,000

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Paper 3 - Taxation

		Intra-State supply of services of business correspondent to Shubhvidhi Bank with respect to accounts in its urban area branch	1,00,000
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The following additional information is provided by 'XY' in relation to the above receipts and payments:

- 10% of the inter-State supply of office stationery are made to unregistered persons.
- Each combi pack (containing a calculator and a diary) is priced at ₹ 800. The calculator and the diary are individually priced at ₹ 700 and ₹ 200 respectively.
- An invoice of ₹ 40,000 towards purchase of office stationery is missing and no other tax paying document is available in respect of such goods.
- All the figures mentioned above are exclusive of taxes, wherever applicable.
- Rates of CGST, SGST and IGST for all services, office stationery and calculator are 9%, 9% and 18% respectively. Rates of CGST, SGST and IGST for diary are 14%, 14% and 28% respectively.
- Subject to the information given above, all the necessary conditions for availing input tax credit have been fulfilled.

Details of opening balances of input tax credit as on 1st July is given hereunder:

Tax	Amount (₹)
CGST	5,000
SGST	5,000
IGST	80,000

Compute the minimum net GST [CGST, SGST or IGST, as the case may be] payable in cash by 'XY' for the month of July. (RTP Nov '20)

Answer 10

Computation of minimum net GST payable in cash by 'XY' for the month of July

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Total tax liability				
Inter-State supply of stationery [Note 1]	2,00,000			36,000
Intra-State supply of 500 combi packs of calculators and diaries [Note-2]	4,00,000 (500 x 800)	56,000 (4,00,000 x 14%)	56,000 (4,00,000 x 14%)	
Intra-State supply of services of business correspondent to a Shubhvidhi Bank with respect to accounts in its urban area branch [Note-3]	1,00,000	9,000 (1,00,000 x 9%)	9,000 (1,00,000 x 9%)	
Total tax liability		65,000	65,000	36,000
Input tax credit (ITC)				
Brought forward ITC		5,000	5,000	80,000
Inter-State purchase of office stationery [Note-4]	1,00,000			18,000
Intra-State repairing of lorry used for transportation of goods [Note-5]	1,00,000	9,000	9,000	
Total ITC		14,000	14,000	98,000
Minimum net GST payable in cash				
Total tax liability		65,000	65,000	36,000
IGST credit being set off against IGST liability				(36,000)

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IGST credit being used to pay CGST and SGST liability in any order and in any proportion		(11,000)	(51,000)	
CGST and SGST credit being used to pay CGST and SGST liability respectively		(14,000) CGST	(14,000) SGST	
Minimum net GST payable in cash		40,000	Nil	Nil

Notes:-

1. Taxable supplies made by a registered person are liable to tax irrespective of whether they are made to a registered person or to an unregistered person.
2. Supply of calculator and diary as a combi pack with a single price of ₹ 800 is a mixed supply. Being a mixed supply comprising of two supplies, it shall be treated as supply of that particular supply which attracts highest rate of tax.
3. Services provided by a business facilitator/ business correspondent to a banking company only with respect to accounts in its rural area branch are exempt and not with respect to accounts in its urban area branch .
4. ITC can be taken only on the basis of a valid tax paying document. Thus, ITC will not be available on goods for which the invoice is missing.
5. ITC on motor vehicles used for transportation of goods is allowed. Further, ITC is allowed on repair and maintenance services relating to motor vehicles, ITC on which is allowed.

Note: IGST credit, after being set off against IGST liability, can be utilised against CGST and SGST liability in any order and in any proportion. Thus, there cannot be one Answer for the minimum net CGST and SGST payable in cash as the amount of CGST and SGST liabilities are the same as also the amount of ITC for CGST and SGST is also the same.

Question 11

- (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.**
- (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. (RTP Nov '20)**

Answer 11

- (a) 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) 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

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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.

Question 12

Mr. Ekaant, a supplier, a registered supplier, is engaged in manufacturing taxable goods. It provides the following details of items purchased and services availed by it from Gujarat, for the month of March, 20XX:

S. No.	Particulars	IGST (₹)
1	Motor vehicle purchased for employees to be used for personal as well as business purposes	1,50,000
2	Motor vehicle purchased for transportation of goods within the factory	2,00,000
3	Food items for consumption of employees. These items were supplied free of cost to the employees in lieu of services rendered by them to the manufacturer in the course of employment.	2,000
4	Rent-a-cab facility availed for employees to fulfil a statutory obligation in this regard. The Government has notified such service under section 17(5)(b)(iii)(A) of the CGST Act, 2017.	36,000

Calculate the amount of eligible input tax credit for the month of March, 20XX. (RTP May '19)

Answer 12

Computation of eligible input tax credit

Particulars	Eligible ITC (₹)
Motor vehicle purchased for employees to be used for personal as well as business purposes [Note-1]	-
Motor vehicle purchased for transportation of goods within the factory [Note-1]	2,00,000
Food items for consumption of employees [Note-2]	-
Rent-a-cab facility given to employees [Note-3]	36,000
Total eligible input tax credit	2,36,000

Notes:-

As per section 17(5) of the CGST Act, 2017:

- ITC on motor vehicles and other conveyances is blocked except when they are used—
 - for making the following taxable supplies, namely :—
 - further supply of such vehicles or conveyances; or
 - transportation of passengers; or
 - imparting training on driving, flying, navigating such vehicles or conveyances;
 - for transportation of goods.
Thus, in the given case, ITC on motor vehicle purchased for transportation of goods within the factory will only be allowed
- ITC in respect of food and beverages is blocked unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply. Thus, in the given case, ITC of taxes paid on food for employees is not allowed.
- ITC on supply of rent-a cab services is not blocked where the Government notifies the services which are obligatory for an employer to provide such service to its employees. Thus, ITC is available on said service.

Question 13

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Cloud Seven Private Limited, a registered supplier, is engaged in the manufacture of taxable goods. The company provides the following information pertaining to GST paid on the purchases made/input services availed by it during the month of February, 20XX :

	Particulars	GST paid (₹)
(i)	Trucks used for the transport of raw material	1,20,000
(ii)	Foods and beverages for consumption of employees working in the factory	40,000
(iii)	Inputs are to be received in five lots, out of which third lot was received during the month	80,000
(iv)	Membership of a club availed for employees working in the factory	1,50,000
(v)	Capital goods (out of five items, invoice for one item was missing and GST paid on that item was ₹ 50,000)	4,00,000
(vi)	Raw material (to be received in March, 20XX)	1,50,000

Determine the amount of input tax credit available with Cloud Seven Private Limited for the month of February, 20XX by giving necessary explanations for treatment of various items. All the conditions necessary for availing the input tax credit have been fulfilled. (RTP Nov '18)

Answer 13

Computation of input tax credit (ITC) available with Cloud Seven Private Limited for the month of February, 20XX

Particulars	₹
Trucks used for the transport of raw material [Note-1]	1,20,000
Foods and beverages for consumption of employees working in the factory [Note-2]	Nil
Inputs are to be received in five lots, out of which third lot was received during the month [Note-3]	Nil
Membership of a club availed for employees working in the factory [Note-4]	Nil
Capital goods (out of five items, invoice for one item was missing and GST paid on that item was ₹ 50,000) [Note-5]	3,50,000
Raw material to be received in March, 20XX [Note-6]	Nil
Total ITC	4,70,000

Notes:-

- ITC on motor vehicles is disallowed in terms of section 17(5) of the CGST Act, 2017, except when they are used inter alia, for transportation of goods.
- ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply- [Section 17(5)].
- When inputs are received in instalments, ITC can be availed only on receipt of last instalment- [Section 16(2)].
- Membership of a club is specifically disallowed under section 17(5) of the CGST Act, 2017.
- ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC [Section 16(2) of CGST Act, 2017] .
- Input tax credit is available only upon the receipt of goods in terms of section 16(2) of CGST Act, 2017.

Question 14

Mr. Bholenath, a registered supplier of goods, pays GST under regular scheme and provides the following information for the month of January, 20XX:

	Particulars	(Rs.)

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(i)	Inter-state taxable supply of goods	10,00,000
(ii)	Intra state taxable supply of goods	2,00,000
(iii)	Intra state purchase of taxable goods	5,00,000

He has the following input tax credit at the beginning of January 20XX:

Nature	ITC Amount in (Rs.)
CGST	20,000
SGST	30,000
IGST	25,000

Rate of CGST, SGST and IGST are 9%, 9% and 18% respectively. Both inward and outward supplies are exclusive of taxes wherever applicable. All the conditions necessary for availing the ITC have been fulfilled. Compute the net GST payable by Mr. Bholenath for the month of January, 20XX. (MTP 6 Marks, Aug'18)

Answer 14

Computation of net GST payable by Mr. Bholenath for the month of January, 20XX
Working of GST payable on Outward supplies

S.No.	Particulars	(Rs.)	GST (Rs.)
(i)	Inter-State taxable supply of goods		
	IGST @ 18% on Rs. 10,00,000		1,80,000
(ii)	Intra-State taxable supply of goods		
	CGST @ 9% on Rs. 2,00,000	18,000	
	SGST @ 9% on Rs. 2,00,000	18,000	36,000

Computation of total ITC

Particulars	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
Opening ITC	20,000	30,000	25,000
Add: ITC on Intra-State purchases of taxable goods valuing Rs. 5,00,000	45,000	45,000	
Total ITC	65,000	75,000	25,000

Computation of GST payable from cash ledger

Particulars	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
GST payable	18,000	18,000	1,80,000
Less: ITC	(18,000)-CGST	(18,000)-SGST	(25,000)-IGST (47,000)-CGST (57,000)-SGST
Net GST payable	Nil	Nil	51,000

Note: ITC of IGST, CGST & SGST have been used to pay IGST in that order.

Question 15

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

Sr. No.	Particulars	Amount of services provided excluding GST (₹)
1.	Statutory audit services provided (intra-State	1,20,000

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	supplies)	
2.	ITR filing services provided within Karnataka (intra-State supplies)	1,60,000
3.	Internal audit services provided to Mumbai client (inter-State supplies)	1,80,000

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

Sr. No.	Particulars	CGST (₹)	SGST (₹)
1.	Car purchased by firm for the use of senior partner of the firm for official use	42,000	42,000
2.	Office rent paid to landlord who is registered in State of Karnataka	450	450
3.	Professional fee paid to Mr. Rajesh, a practicing Chartered Accountant, for professional services availed [TDS of ₹ 20,000 is deducted under section 194J of the Income-tax Act, 1961]	18,000	18,000
4.	Computer purchased for office purpose	3,000	3,000

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

Compute the net GST payable in cash by M/s. ABC & Co. for the month of April. Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively assuming that all the remaining conditions of utilisation of ITC are fulfilled. (MTP 8 Marks April '23)

Answer 15

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

Particulars	Value of supply	CGST (₹)	SGST (₹)	IGST (₹)
Statutory audit services	1,20,000	10,800	10,800	
ITR filing services	1,60,000	14,400	14,400	
Internal audit services	1,80,000	-	-	32,400
Total output tax liability		25,200	25,200	32,400
Less: ITC [Refer Working Note] [CGST credit is set off against CGST liability and SGST credit is set off against SGST liability since CGST credit cannot be utilized towards payment of SGST liability and vice versa.]		(21,000)	(21,000)	
Net GST payable		4,200	4,200	32,400

Working Note:

Computation ITC that can be availed

Particulars	CGST (₹)	SGST (₹)
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Computation of eligible ITC		
Car purchased for official use by senior partner [ITC on motor vehicles used for transportation of persons with seating capacity upto 13 persons (including driver) is blocked except when used for making specified outward supplies.]	Nil	Nil
Office rent paid to landlord [No ITC since the supplier did not upload the details of invoice in his GSTR- 1 and said details are not being reflected in GSTR-2B of recipient.]	Nil	Nil
Professional fee paid [ITC on services used in the course/furtherance of the business is allowed.]	18,000	18,000
Computer for office purpose [ITC on goods used in the course/furtherance of the business is allowed.]	3,000	3,000
Total eligible ITC which can be availed [ITC in respect of invoices furnished by the suppliers in their GSTR-1s and reflected in GSTR-2B of recipient.]	21,000	21,000

Question 16

M/s. Flow Pro, a registered supplier, is engaged in manufacturing heavy steel fabrication machine. The details pertaining to pricing of each such machine is as follows:

S. No.	Particulars	Amount (₹)
(i)	Price of the machine [excluding taxes and other charges mentioned at S. Nos. (ii) and (iii)]	25,00,000
(ii)	Third party inspection charges [Such charges were payable by M/s Flow Pro but the same have been directly paid by BP Ltd. to the inspection agency. These charges were not recorded in the invoice issued by M/s Flo Pro.]	5,00,000
(iii)	Freight charges for delivery of the machine [M/s Flow Pro has agreed to deliver the goods at BP Ltd.'s premises]	2,00,000
(iv)	Subsidy received from the State Government on sale of machine under Skill Development Programme [Subsidy is directly linked to the price]	5,00,000
(v)	Discount of 2% is offered to BP Ltd. on the price mentioned at S. No. (i) above and recorded in the invoice	

Note: Price of the machine is net of the subsidy received.

M/s. Flow Pro has supplied one such machine in the month of October. It also provided the following details pertaining to the purchases made/services availed during said month:

S. No.	Inward supplies	IGST (₹)	Remarks
(i)	Inputs 'A'	1,00,000	One invoice on which IGST payable was ₹ 10,000, is missing
(ii)	Inputs 'B'	50,000	Inputs are to be received in two lots. First lot has been received in October

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(iii))	Capital goods	1,20,000	M/s. Flow Pro has capitalised the capital goods at full invoice value inclusive of GST as it will avail depreciation on the full invoice value.
(iv))	Input services	2,25,000	One invoice dated 20th January of preceding financial year on which GST payable was ₹ 50,000 was missing and has been found in October

Compute the net GST payable in cash by M/s. Flow Pro for October assuming that all the inward supplies are inter-State supplies and all outward supplies are intra-State supplies. Assume the rates of taxes to be as under:

Particulars	Rates of tax
Central tax (CGST)	9%
State Tax (SGST)	9%
Integrated tax (IGST)	18%

Make suitable assumptions, wherever necessary. All the conditions necessary for availing the ITC have been fulfilled. Opening balance of the input tax credit for the relevant period is Nil. The annual return for the previous financial year was filed on 15th September of the current year. (MTP 8 Marks March '23)

Answer 16

Computation of net GST payable by Prithviraj Pvt. Ltd. for the month of July

Particulars	CGST (₹)	SGST (₹)
GST payable on outward supplies (Refer Working note - 1)	2,83,500	2,83,500
Less: ITC (Refer Working note - 2) [ITC of IGST can be utilised for payment of CGST and SGST in any proportion and in any order.]	1,32,500	1,32,500
Net GST payable in cash	1,51,000	1,51,000

Note: ITC of IGST can be utilised towards payment of CGST and SGST in any proportion and in any order. Therefore, there can be multiple ways of setting off of IGST credit against CGST and SGST liability and accordingly, in the given case, amount of net GST payable in cash under the heads of CGST and SGST will vary. However, total amount of net GST payable in cash will be ₹ 3,02,000 in each case Working note - 1

Computation of GST payable on outward supply made by M/s. Flo Pro for the month of July

Particulars	Amount (₹)
Price of the machine [Since the subsidy is received from the State Government, the same is not includible in the value of supply in terms of section 15(2)(e)]	25,00,000
Third party inspection charges [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	5,00,000

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Freight charges for delivery of the machine [Since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are added in the value of principal supply.]	2,00,000
Total	32,00,000
Less: Discount @ 2% on ₹ 25,00,000 being price charged to BP Ltd. [Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply in terms of section 15(3)(a)]	50,000
Value of taxable supply	31,50,000
GST payable on outward supplies CGST @ 9% SGST @ 9% [Since all the outward supplies are intra-State supplies, CGST and SGST are payable on the same.]	2,83,500 2,83,500

Working note – 2

Computation of ITC available with M/s Flow Pro for the month of July

S. No.	Inward supplies	ITC (₹)
(i)	Inputs 'A' [ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC.]	90,000
(ii)	Inputs 'B' [When inputs are received in lots, ITC can be availed only on receipt of last lot.]	Nil
(iii)	Capital goods [Input tax paid on capital goods cannot be availed as ITC, if depreciation has been claimed on such tax component.]	Nil
(iv)	Input services [ITC on an invoice cannot be availed after 30th November following the end of financial year to which such invoice pertains or the date of filing annual return, whichever is earlier. Since the annual return for the previous financial year has been filed on 15 th September, ITC on the invoice pertaining to previous financial year cannot be availed after 15th September.]	1,75,00 0
	Total ITC (IGST)	2,65,00 0

Note - CGST @ 9% and SGST @ 9% are payable on the outward supplies since they are intra-State supplies and IGST @ 18% is payable on the inward supplies since they are inter-State supplies.

Question 17

What is the tax implication of supply of capital goods by a registered person who had taken ITC on such capital goods? (MTP 5 Marks April 22)

Answer 17

In case of supply of capital goods or plant and machinery on which ITC has been taken,

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the registered person shall pay an amount equal to the ITC taken on the said capital goods or plant and machinery reduced by 5% per quarter or part thereof from the date of invoice or the tax on the transaction value of such capital goods, whichever is higher. However, in case of refractory bricks, moulds and dies, jigs and fixtures when these are supplied as scrap, the person can pay tax on the transaction value.

Question 18

Radiance Soap Factory, a registered supplier, is engaged in manufacturing beauty soaps – ‘Glow 24x7’ in Mumbai. It has provided the following information pertaining to purchases made/services availed in the month of January, 2024:

Particulars	GST paid (Rs.)
Soap making machine	50,000
Motor vehicles for transportation of inputs	70,000
Membership of “Amaze” health and fitness center for its employees	25,000
Inputs purchased, but stolen from the factory	40,000

You are required to compute the input tax credit (ITC) available with Radiance Soap Factory for the month of January, 2024 assuming that all the other conditions for availing ITC, wherever applicable, have been fulfilled. (MTP 4 Marks, Oct’18, Mar’18)

Answer 18

Computation of ITC available with Radiance Soap Factory

Particulars	Amount (Rs.)
Soap making machine [Note-1]	50,000
Motor vehicles for transportation of inputs [Note-2]	70,000
Membership of ‘Amaze’ health and fitness center for its employees [Note-3]	Nil
Inputs stolen from the factory [Note-4]	Nil
Total ITC available	1,20,000

Notes: -

- ITC in respect of goods used in course/furtherance of business is available in terms of section 16 of the CGST Act.
- ITC in respect of motor vehicles and conveyances is blocked, except when used, inter alia, for transportation of goods, in terms of section 17(5) of the CGST Act.
- ITC in respect of membership of a club, health and fitness center is blocked in terms of section 17(5) of the CGST Act.
- ITC in respect of goods stolen is blocked in terms of section 17(5) of the CGST Act.

Question 19

Laxmi Pvt. Ltd., a registered supplier, is engaged in the manufacture of taxable goods. The company provides the following information pertaining to GST paid on the purchases made/input services availed by it during the month of July, 2023:

Sr. No	Particulars	GST paid
(1)	Raw Material (to be received in September, 2023)	2,50,000
(2)	Membership of a club availed for employees working in the factory	1,45,000
(3)	Inputs to be received in 5 lots, out of which 3rd lot was received during the month	80,000

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(4)	Trucks used for transport of raw material	40,000
(5)	Capital goods (out of 3 items, invoice for 2 items is missing and GST paid on that item is Rs. 80,000)	1,50,000
(6)	Confectionery items for consumption of employees working in the factory. These items were supplied free of cost to the employees in lieu of services rendered by them to the manufacturer in the course of employment.	75,000

Determine the amount of tax credit available with Laxmi Pvt. Ltd. for the month of July, 2023 by giving the necessary explanation for treatment of various items. All the conditions necessary for availing the ITC have been fulfilled. (MTP 6 Marks, April'19)

Answer 19

Computation of ITC available with Laxmi Pvt. Ltd. for the month of July, 2023

Particulars	Rs.
Raw Material [ITC not available as raw material is not received in July, 2018]	Nil
Membership of a club availed for employees working in the factory [Blocked credit in terms of section 17(5) of the CGST Act, 2017]	Nil
Inputs to be received in 5 lots, out of which 3rd lot was received during the month [In case of goods received in lots, ITC can be taken only upon receipt of the last lot]	Nil
Trucks used for transport of raw material [ITC of GST paid on motor vehicles is allowed only when used, inter alia, for transportation of goods in terms of section 17(5) of the CGST Act, 2017]	40,000
Capital goods [ITC of GST paid on items for which invoice is missing is not available. So, ITC of Rs. 80,000 is not available]	70,000
Confectionery items for consumption of employees working in the factory [ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply-Section 17(5)(b)(I)]	Nil
Total ITC available	1,10,000

Question 20

What is the ITC entitlement of a newly registered person? (MTP 5 Marks Oct'22, MTP 5 Marks Mar'22)

Answer 20

A person applying for registration can take input tax credit of inputs held in stock and inputs contained in semi- finished or finished goods held in stock on the day immediately preceding the date of grant of registration. If the person was liable to take registration and he has applied for registration within thirty days from the date on which he became liable to registration, then ITC of inputs held in stock and inputs contained in semi- finished or finished goods held in stock on the day immediately preceding the date on which he became liable to pay tax can be taken.

In case of voluntary registration, ITC of such goods held in stock on the day immediately preceding the date of registration can be taken.

Question 21

Paritosh & Co., a supplier of goods, pays GST under regular scheme. It has made the following outward taxable supplies in a tax period:

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Particulars	Amount (₹)
Intra-State supply of goods	10,00,000
Inter-State supply of goods	8,00,000

It has also furnished the following information in respect of purchases made by it in that tax period:

Particulars	Amount (₹)
Intra-State purchases of goods	3,00,000
Inter-State purchases of goods	2,50,000

Paritosh & Co. has following ITCs with it at the beginning of the tax period:

Particulars	Amount (₹)
CGST	57,000
SGST	60,000
IGST	1,40,000

Note:

- (i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.
 - (ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.
 - (iii) All the conditions necessary for availing ITC have been fulfilled.
- Compute the minimum GST, payable in cash, by Paritosh & Co. for the tax period and the ITC to be carried forward to the next month. Make suitable assumptions as required. (MTP 8 Marks, Nov'21, Oct'20, Oct'18, Apr'21, Mar'22,,)

Answer 21

Computation of GST payable on outward supplies

S.No.	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (Rs.)
(i)	Intra-State supply of goods for ₹ 10,00,000	90,000	90,000		1,80,000
(ii)	Inter-State supply of goods for ₹ 8,00,000			1,44,000	1,44,000
	Total GST payable				3,24,000

Computation of total ITC

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening ITC	57,000	60,000	1,40,000
Add: ITC on Intra-State purchases of goods valuing ₹ 3,00,000	27,000	27,000	Nil
Add: ITC on Inter-State purchases of goods valuing ₹ 2,50,000	Nil	Nil	45,000
Total ITC	84,000	87,000	1,85,000

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Paper 3 - Taxation

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
GST payable	90,000	90,000	1,44,000	3,24,000
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(38,000) IGST	(3,000) IGST	(1,44,000) IGST	1,85,000
	(52,000) CGST	(87,000) SGST		1,39,000
Minimum GST payable incash	Nil	Nil	Nil	Nil
ITC balance to be carried forward next month	32,000	Nil	Nil	32,000

Note: The above computation is one of the many ways to set off the ITC of IGST (₹41,000-after set off against IGST liability) against CGST and SGST liability to compute minimum GST payable in cash. To illustrate, IGST of ₹ 10,000 can be set off against SGST payable and IGST of ₹ 31,000 can be set off against CGST payable. In this situation also, the net GST payable will be nil but the ITC of CGST and SGST to be carried forward will be ₹ 25,000 and ₹ 7,000 (totaling to ₹ 32,000) respectively. However, if the entire ITC of ₹ 41,000 is set off against CGST payable, then SGST of ₹ 3,000 will be payable in cash thus, increasing the cash outflow. Therefore, such a set off would not be advisable for computing the minimum GST payable.

Question 22

M/s. Comfortable (P) Ltd. is registered under GST in Chennai, Tamil Nadu. It is engaged in the manufacture of iron and steel products. It has carried out following transactions in the financial year 20XX-XY: -

- (a) **Purchased 1,000 Metric Ton (MT) iron @ 1,000 per MT (excluding GST) from M/s. Hard Ltd. of Chennai. M/s. Hard Ltd. has fulfilled the order as follows:**

Date	Quantity (MT)	Taxable Value
28-Feb-20XY	200	2,00,000/-
10-Mar-20XY	250	2,50,000/-
25-Mar-20XY	250	2,50,000/-
28-Mar-20XY	200	2,00,000/-

Balance order requirement has been fulfilled by Hard Ltd. on 5-Apr-20XY. However, Hard Ltd. has raised the invoice for full order at the time of dispatch of first lot, i.e. on 28-Feb-20XY. M/s. Comfortable (P) Ltd. has made the full payment on 28-Feb-20XY for the order.

- (b) **Company has received IT engineering service from M/s. Dynamic InfoTech (P) Ltd. of Chennai for Rs. 11,00,000/- (excluding GST) on 28-Oct-20XX. Invoice for service rendered was issued on 5-Nov-20XX. M/s Comfortable (P) Ltd. made part-payment of Rs. 4,13,000/- on 31-Dec-20XX. Being unhappy with service provided by M/s Dynamic InfoTech (P) Ltd., it did not make the balance payment. Deficiency in service rendered was made good by M/s Dynamic InfoTech (P) Ltd. by 15-Feb-20XY. M/s. Comfortable (P) Ltd. made payment of Rs. 2,95,000/- on 15-Feb-20XY towards full and final settlement of the dues and did not pay the balance amount.**
- (c) **Company has made the following intra State supplies (excluding GST) for the financial year 20XX- XY: -**

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S.No.	Particulars	Amount (Rs.)
1.	Value of intra-State supplies made to registered persons	10,00,000
2.	Value of intra- State supplies made to unregistered persons	2,00,000

(i) Compute the GST liability (CGST, SGST or IGST, as the case may be) of M/s. Comfortable (P) Ltd. for the financial year 20XX-XY: -

(ii) Compute the amount of input tax credit to be reversed in the FY 20XX-XY and/or in the next FY 20XY-YZ, if any.

Assume the rates of GST as under:

CGST	9%
SGST	9%
last	18%

Note

(i) All the conditions necessary for availing input tax credit have been fulfilled.

(ii) Ignore interest, if any (MTP 8 Marks, March'19)

Answer 22

i. Computation of net GST payable for the financial year 20XX-XY

Particulars	Value (Rs.)	CGST (Rs.)	SGST (Rs.)
Tax liability			
Intra-State supplies made to registered persons	10,00,000	90,000	90,000
Intra State supplies made to unregistered persons	2,00,000	18,000	18,000
Total (A)		1,08,000	1,08,000
Input Tax credit			
Supply of iron in lots by M/s Hard Limited [Note-1]	10,00,000	-	-
Supply of IT engineering service [Note-2]	11,00,000	99,000	99,000
Total (B)		99,000	99,000
Net GST payable (A)-(B)		9,000	9,000

Notes: -

7. Section 16 of CGST Act, 2017 provides that where the goods against an invoice are received in lots or installments, the registered person shall be entitled to take credit upon receipt of the last lot or installment. Although 900 tonnes of iron are received in financial year 20XX-XY, the last lot of iron has been received after FY 20XX-XY only, i.e. on 5, April 20XY, thus no input tax credit is available in FY 20XX-XY.

In view of above provisions, full input tax credit in respect of transaction (a) will be claimed in financial year 20XY-20YZ i.e. on receipt of last installment.

8. Section 16 of CGST Act, 2017 inter alia provides that every registered person is entitled to take credit of input tax charged on supply of services to him which are used in the course of business on receipt of the said services.

Thus, in view of the above mentioned provisions full input tax credit of Rs. 1,98,000/- can be claimed in financial year 20XX-XY.

ii. Section 16 of CGST Act, 2017 provides that where a recipient fail to pay to the supplier of goods or services or both, other than the supplies on which tax is payable on reverse charge basis, the amount towards the value of supply along with tax payable thereon within a period of 180 days

from the date of issue of invoice by the supplier, an amount equal to the input tax credit availed by the recipient shall be added to his output tax liability, along with interest thereon, in the prescribed manner.

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However, the recipient shall be entitled to avail of the credit of input tax on payment made by him of the amount towards the value of supply of goods or services or both along with tax payable thereon.

Since the full amount of value along with tax payable thereon has not been paid by M/s Comfortable (P) Ltd. to M/s Dynamic InfoTech (P) Ltd within a period of 180 days from the date of issue of invoice, the proportionate amount of input tax credit availed needs to be reversed. However, the reversal will be done in the financial year 20XY-YZ during when the time period of 180 days expires. Input tax credit to be reversed in financial year 20XY-YZ

Particulars	Amount (Rs.)
Total value of procurement of IT engineering service	11,00,000
Add: Total GST on the above value @ 18%[CGST + SGST]	1,98,000
Value including GST	12,98,000
Amount paid for the said service including GST [Rs. 4,13,000 + Rs. 2,95,000]	7,08,000
Amount [value along with tax payable thereon] not paid for the said service	5,90,000
ITC to be reversed [Rs. 5,90,000 x 18/118]	90,000

Question 23

Shridhar Co. Ltd., a registered supplier, is engaged in the manufacture of heavy machinery. It procured the following items during the month of March.

S. No.	Items	GST paid (Rs.)
(I)	Sweets for consumption of employees working in the factory	50,000
(ii)	Raw material	1,00,000
(iii)	Trucks used for the transport of raw material	2,00,000
(iv)	Electrical transformers to be used in the manufacturing process	4,00,000

Determine the amount of input tax credit available with Shridhar Co. Ltd., for the month of March by giving necessary explanations for treatment of various items. Note: All the conditions necessary for availing the input tax credit have been fulfilled. (MTP 4 Marks, Aug'18)

Answer 23

Computation of ITC available with Shridhar Co. Ltd. for the month of March

S. No.	Items	ITC (Rs.)
(I)	Sweets for consumption of employees working in the factory [Note-1]	Nil
(ii)	Raw material [Note-2]	1,00,000
(iii)	Trucks used for the transport of raw material [Note-3]	2,00,000
(iv)	Electrical transformers [Note-4]	4,00,000
	Total ITC	7,00,000

Notes: -

- ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed Supply-Section 17(5)(b)(I).

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2. Being goods used in the course or furtherance of business, ITC thereon is available in terms of section 16(1).
3. Though ITC on motor vehicles has been specifically disallowed under section 17(5)(a), ITC on motor vehicles used for transportation of goods is allowed under section 17(5)(a)(ii).
4. Being goods used in the course or furtherance of business, ITC thereon is available in terms of section 16(1).

Question 24

Enumerate the conditions necessary for availing ITC under GST law. (MTP 5 Marks Sep'22, MTP 5 Marks, Aug'18)

Answer 24

No registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless:

- (a) he is in possession of tax invoice or debit note or such other tax paying documents as may be prescribed;
- (b) he has received the goods or services or both;
- (c) subject to section 41 of the CGST Act, the supplier has actually paid the tax charged in respect of the supply to the Government;
- (d) he has furnished the return under section 39; and
- (e) the details of the invoice/debit note in respect of said supply has been furnished by the supplier in the statement of outward supplies (GSTR-1) and such details have been communicated to the recipient of such invoice/debit note in the manner specified under section 37

Question 25

A registered person must pay to the supplier, the value of the goods and/or services along with the tax within 180 days from the date of issue of invoice. State the exceptions to said rule. (MTP 3 Marks March '23)

Answer 25

The condition of payment of value of supply plus tax within 180 days does not apply in the following situations:

- (a) Supplies on which tax is payable under reverse charge
- (b) Deemed supplies without consideration
- (c) Additions made to the value of supplies on account of supplier's liability, in relation to such supplies, being incurred by the recipient of the supply.

Question 26

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	5,00,000	10,00,000	18%
Punjab	2,50,000	8,00,000	9%each for SGST& CGST
Total	7,50,000	18,00,000	

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

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April 20XX in cash?
(MTP 8 Marks, May'20)

Answer 26

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	72,000	72,000	
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	9,500	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.]	5,00,000			90,000
Purchases from Punjab	2,50,000	22,500	22,500	
Total input tax credit		72,500	52,500	1,90,000

Question 27

Granites Textiles Ltd. purchased a needle detecting machine on 8th July, 2022 from Makhija Engineering Works Ltd. for ₹ 10,00,000 (excluding GST) paying GST @ 18% on the same. It availed the ITC of the GST paid on the machine and started using it for manufacture of goods. The machine was sold on 22nd October, 2023 for ₹ 7,50,000 (excluding GST), as second hand machine to LT. Pvt. Ltd. The GST rate on supply of machine is 18%.

State the action which Granites Textiles Ltd. is required to take, if any, in accordance with the statutory GST provisions on the sale of the second-hand machine. (RTP May '18)

Answer 27

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:

(a) input tax credit taken on such goods reduced by 5% per quarter of a year or part

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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

(b) 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		
(i) For the year 2022-23 = (₹ 1,80,000 × 5%) × 3 quarters	27,000	
(ii) For the year 2023-24 = (₹ 1,80,000 × 5%) × 3 quarters	27,000	54,000
Amount required to be paid (A)		1,26,000
Duty leviable on transaction value (₹ 7,50,000 × 18%) (B)		1,35,000
Amount payable towards disposal of machine is higher of (A) and (B)		1,35,000

Question 28

Explain the meaning of the term “input tax” under section 2(62) of CGST Act, 2017. (RTP Nov '18)

Answer 28

As per section 2(62) of CGST Act, 2017, “input tax” in relation to a registered person, means the central tax, State tax, integrated tax or Union territory tax charged on any supply of goods or services or both made to him and includes—

- the integrated goods and services tax charged on import of goods;
- the tax payable under the provisions of sub-sections (3) and (4) of section 9;
- the tax payable under the provisions of sub-section (3) and (4) of section 5 of the IGST Act;
- the tax payable under the provisions of sub-section (3) and sub-section (4) of section 9 of the respective SGST Act; or
- the tax payable under the provisions of sub-section (3) and sub-section (4) of section 7 of the UTGST Act, but does not include the tax paid under the composition levy.

Question 29

Advise regarding availability of input tax credit (ITC) under the CGST Act, 2017 in the following independent cases:-

- AMT Co. Ltd. purchased a mini bus having seating capacity of 16 persons for transportation of its employees from their residence to office and back.**
- Bangur Ceramics Ltd., a manufacturing company purchased two trucks for transportation of its finished goods from the factory to dealers located in various locations within the country.**
- “Hans premium” dealing in luxury cars in Chankyapuri, Delhi purchased five Skoda VRS cars for sale to customers.**
- Sun & Moon Packers Pvt. Ltd. availed outdoor catering service to run a canteen in its factory. The Factories Act, 1948 requires the company to set up a canteen in its factory. (RTP May '20)**

Answer 29

- Section 17(5) of the CGST Act, 2017, inter alia, blocks input tax credit in respect of motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for certain specified purposes. Since in the given case, the mini bus has a seating capacity of 16 persons, the ITC thereon will not be blocked.
- Section 17(5) of the CGST Act, 2017, inter alia, blocks input tax credit in respect of motor vehicles for transportation of persons with certain exceptions. Thus, ITC on motor vehicles for transportation of goods is allowed unconditionally.

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Therefore, ITC on trucks purchased by Bangur Ceramics Ltd for transportation of its finished goods from the factory to dealers located in various locations within the country is allowed.

- (iii) Section 17(5) of the CGST Act, 2017, inter alia, blocks input tax credit in respect of motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for making further supply of such motor vehicles.

Being a dealer of cars, "Hans Premium" has purchased the cars for further supply. Therefore, ITC on such cars is allowed even though seating capacity is less than 13.

- (iv) Section 17(5) of the CGST Act, 2017 inter alia, blocks input tax credit in respect of outdoor catering services. However, ITC is available on such services, when the same are provided by an employer to its employees under a statutory obligation. Thus, in view of the above- mentioned provisions, Sun & Moon packers Pvt. Ltd. can avail ITC in respect of outdoor catering services availed by it as the same is being provided under a statutory obligation.

Question 30

Mr. Ekaant, a supplier registered in Delhi, is engaged in the business of sale and purchase of plastic raincoats. He furnishes the following information pertaining to inward/outward supply made by him for the month of July, 20XX:

Particulars	Amount (₹ in lakh)
Value of inter-State outward supply to registered persons	30
Value of intra-State outward supply to registered persons	50
Value of intra-State outward supply to unregistered persons	15
Value of intra-State inward supply from registered persons	10
Value of inter-State inward supply from registered persons	5
Value of intra-State inward supply from unregistered persons	2

Following additional information is also provided by Mr. Ekaant:-

Particulars	Amount (₹ in lakh)
IGST credit on capital goods purchased in the month of July	1.5
CGST/ SGST credit on other inward supplies [including credit of ₹ 5,000 (CGST and SGST each) on account of membership of a club]	0.5 (CGST and SGST each)
Availed consultancy services from Mr. Sujit, lawyer located in Delhi [Intra-State services]	1

The amount of ITC brought forward in the month of July, 20XX is as under:-

CGST: ₹ 2 lakh

SGST: ₹ 2 lakh IGST: ₹ 5 lakh

Calculate the net GST liability (CGST and SGST or IGST, as the case may be) to be paid in cash for the month of July, 20XX by assuming the rates of GST as under:

CGST 9%

SGST 9%

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IGST **18**
 %

Note:

- (i) **All the amounts given above are exclusive of taxes.**
(ii) **All the conditions necessary for availing the ITC have been fulfilled. (RTP May '19)**

Answer 30

Computation of net GST liability of Mr. Ekaant

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Total tax liability				
Value of intra-State legal consultancy services i.e. inward supplies liable to reverse charge mechanism (to be paid in cash) (A) [Note-1]	1,00,000	9,000	9,000	-
Value of inter-State outward supplies (B1)	30,00,000	-	-	5,40,000
Value of intra-State outward supplies to registered as well as unregistered persons (B2) (₹ 50,00,000+ ₹ 15,00,000)	65,00,000	5,85,000	5,85,000	-
Total (B) = (B1) +(B2)		5,85,000	5,85,000	5,40,000
Input tax Credit				
Brought forward ITC		2,00,000	2,00,000	5,00,000
Value of intra-State inward supplies from registered person [Note-2]	10,00,000	90,000	90,000	
Value of inter-State inward supplies from registered person [Note-2]	5,00,000	-	-	90,000
Value of intra-State inward supplies from unregistered person [Note-3]	2,00,000	-	-	-
IGST credit of capital goods [Note-2]				1,50,000
Credit on other inward supplies purchased in the month of July less credit on membership of a club [Note-2 & 4]		45,000	45,000	-
Credit of legal consultancy services [Note-2]		9,000	9,000	-
Total (C)		3,44,000	3,44,000	7,40,000
Net liability (B)-(C)		2,41,000	2,41,000	(2,00,000)
Less: Set off from IGST credit [Note-5]		2,00,000	-	-
Liability after set off (D)		41,000	2,41,000	Nil
Net GST liability to be paid in cash (A) + (D)		50,000	2,50,000	Nil

Notes:-

- Services supplied by an individual advocate to any business entity located in the taxable territory by way of legal services, directly or indirectly are taxable under reverse charge mechanism. Thus, tax is payable by the recipient (Mr. Ekaant) on said services to the Government. Further, as per section 49(4) of the CGST Act, 2017, amount available in the electronic credit ledger [ITC amount] may be used for making payment towards output tax. However, tax payable under reverse charge is not an output tax in terms of section 2(82) of the CGST Act, 2017. Therefore, tax

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- payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.
- Every registered person is entitled to take credit of input tax charged on any inward supply of goods and/or services which are used or intended to be used in the course or furtherance of his business in terms of section 16 of CGST Act, 2017. Further "input tax" in relation to a registered person includes the tax payable under reverse charge mechanism in terms of section 2(62) of the CGST Act, 2017.
 - Intra-State supplies received by a registered person from any unregistered supplier, are exempt from the whole of the central tax leviable thereon under section 9(4) till 30.09.2019 [Notification No.8/2017 CT (R) dated 28.06.2017]. Since no tax has been paid, so no credit is available.
 - Input tax credit is not allowed in respect of membership of a club in terms of section 17(5) of CGST Act, 2017.
 - Input tax credit of IGST has been used to pay IGST and CGST in that order.

Question 31

M/s. Shri Durga Corporation Pvt. Ltd. is a supplier of goods and services at Kolkata. It has furnished the following information for the month of February, 20XX:

	Particulars	Amount (₹)
(i)	Intra-State sale of taxable goods including ₹ 1,00,000 received as advance in January, 20XX, the invoice for the entire sale value is issued on 15th February, 20XX	4,00,000
(ii)	Goods purchased from unregistered dealer on 20th February, 20XX (Inter-State purchases are worth ₹ 30,000 and balance purchases are intra-State)	1,00,000
(iii)	Services provided by way of labour contracts for repairing a single residential unit otherwise than as a part of residential complex (It is an intra-State transaction)	1,00,000
(iv)	Goods transport services received from a GTA. GTA is paying tax @12% (It is an inter-State transaction)	2,00,000

Compute net GST liability (CGST, SGST or IGST, as the case may be) of M/s Shri Durga Corporation Pvt. Ltd. for the month of February, 20XX. Assume the rates of GST, unless otherwise specified, as under:

CGST	9%
SGST	9%
IGST	18%

Note:-

- The turnover of M/s. Shri Durga Corporation Pvt. Ltd. was ₹ 2.5 crore in the previous financial year.
- All the amounts given above are exclusive of taxes. (RTP Nov '18)

Answer 31

Computation of GST liability of M/s. Shri Durga Corporation Pvt. Ltd. for the month of February, 20XX

Particulars	Value of Supply	CGST (₹)	SGST (₹)	IGST (₹)
Intra -State sale of taxable goods [Note-1]	4,00,000	36,000	36,000	
Goods purchased from unregistered dealer on 20th February, 20XX [Note-2]	Nil	Nil	Nil	
Services rendered by way of labour contracts for repairing a single residential	1,00,000	9,000	9,000	

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unit otherwise than as a part of residential complex [Note-3]			
Goods transport services received from GTA [Note-4]	2,00,000		Nil
Total GST liability for the month of February, 20XX	45,000	45,000	Nil
Less: Input tax credit available [Note-5] (₹ 2,00,000 x 12%)	24,000		
Net GST liability for the month of February, 20XX	21,000	45,000	Nil

Notes:

1. Section 12 of CGST Act, 2017 read with Notification No. 66/2017 CT dated 15.11.2017 provides that the time of supply for all suppliers of goods (excluding composition suppliers) is the time of issue of invoice, without any turnover limit. Thus, liability to pay tax on the advance received in January, 20XX will also arise in the month of February, when the invoice for the supply is issued.
2. All intra-State and inter-State procurements made by a registered person from unregistered person have been exempted from reverse charge liability, without any upper limit for daily procurements upto 30.06.2018*1. [Notification No. 8/2017 CT (R) dated 28.06.2017 as amended and Notification No. 32/2017 IT(R) dated 13.10.2017 as amended]
3. Services by way of pure labour contracts of construction, erection, commissioning, or installation of original works pertaining to a single residential unit otherwise than as a part of a residential complex are exempt vide Notification No. 12/2017 CT(R) dated 28.06.2017. Labour contracts for repairing are thus, taxable.
4. As per Notification No. 13/2017 CT(R) dated 28.06.2017, GST is payable by the recipient on reverse charge basis on the receipt of services of transportation of goods by road from a goods transport agency (GTA) provided such GTA has not paid GST @ 12%. Since in the given case, services have been received from a GTA who has paid GST @ 12%, reverse charge provisions will not be applicable.
5. Input tax credit is available for the services received from GTA. The input tax credit of IGST can be used against IGST, CGST and SGST in the respective order vide section 49(5) of CGST Act, 2017.

Question 32

Shipra Traders is a registered supplier of goods in Assam. It purchased goods valued at ₹ 10,000 from Kartik Suppliers located within the same State. Kartik Suppliers charged CGST & SGST separately in its invoice. Subsequently, Shipra Traders sold goods valuing ₹ 9,500 to Rabina Manufacturers located in Assam. 20% of the inputs purchased are still lying in stock and there was no opening stock of goods. Rate of CGST and SGST on supply and purchase of goods is 9% each. Calculate the net GST payable by Shipra Traders and input tax credit (ITC) to be carried forward, if any. (RTP May '18)

Answer 32

Computation of net GST payable by Shipra Traders

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)
GST payable on intra-State supply of goods [Being an intra-State supply, CGST and SGST is payable on the same]	855 [9,500 × 9%]	855 [9,500 × 9%]
Less: ITC on intra-State purchase of goods [ITC of CGST and SGST paid on intra-State purchase is available in full, even if some inputs are lying in stock]	900 [10,000 × 9%]	900 [10,000 × 9%]

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Net GST payable	Nil	Nil
Input tax credit carried forward in Electronic Credit Ledger	45	45

Question 33

A Ltd. procured the following goods in the month of December, 2023.

Inward Supplies	GST (₹)
(1) Goods used in constructing an additional floor of office building	18,450
(2) Goods given as free sample to prospective customers	15,000
(3) Trucks used for transportation of inputs in the factory	11,000
(4) Inputs used in trial runs	9,850
(5) Confectionery items for consumption of employees working in the factory	3,250
(6) Cement used for making foundation and structural support to plant and machinery	8,050

Compute the amount of ITC available with A Ltd. for the month of December 2023 by giving necessary explanations. Assume that all the other conditions necessary for availing ITC have been fulfilled. (PYP 6 Marks, July'21)

Answer 33

Computation of amount of ITC available for the month of December 2023

S. No.	Particulars	GST (₹)
(1)	Goods used in construction of additional floor of office building [ITC on goods received by a taxable person for construction of an immovable property on his own account is blocked even if the same is used in the course or furtherance of business. It has been assumed that cost of construction of additional floor has been capitalized.]	Nil
(2)	Goods given as free samples to prospective customers [ITC on goods disposed of by way of free samples is blocked.]	Nil
(3)	Trucks used for transportation of inputs in the factory [ITC on motor vehicles used for transportation of goods is not blocked.]	11,000
(4)	Inputs used in trial runs [Being used in trial runs, inputs are used in the course or furtherance of business and hence ITC thereon is allowed.]	9,850

3 It has been assumed that depreciation has not been claimed on tax component.

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(5)	Confectionary items for consumption of employees working in the factory [ITC on food or beverages is blocked unless the same is used in same line of business or as an element of the taxable composite or mixed supply. Further, ITC on goods and/or service used for personal consumption is blocked.]	Nil
(6)	Cement used for making foundation and structural support to plant and machinery [ITC on goods used for construction of plant and machinery is not blocked. Plant and machinery includes foundation and structural supports through which the same is fixed to earth.]	8,050
	Total eligible ITC	28,900

Question 34

KNK Ltd., a registered supplier of Mumbai is a manufacturer of heavy machines. Its outward supplies (exclusive of GST) for the month of January, 2024 are as follows:

S. No.	Particulars	Amount (₹)
(I)	Inter-State	85,00,000
(ii)	Intra-State	15,00,000

Applicable rate of CGST, SGST and IGST on outward supply are 9%, 9% and 18% respectively. Details of GST paid on inward supplies during the month of January, 2024 are as follows:

S. No.	Particulars	CGST paid (₹)	SGST paid (₹)
(I)	Raw material A (of which 70% of inputs procured were used and 30% were in stock at the end of the January, 2024)	60,000	60,000
(ii)	Raw material B (of which 90% material received in factory and remaining material completely damaged due to a road accident on the way to factory. There was no negligence on the part of the KNK Ltd.)	50,000	50,000
(iii)	Construction of pipelines laid outside the factory premises	30,000	30,000
(iv)	Insurance charges paid for trucks used for transportation of goods.	55,000	55,000

Additional Information:

- (i) There is no opening balance of any input tax credit and all the conditions necessary for availing the input tax credit (ITC) have been fulfilled.
- (ii) Details of GST paid on inward supplies are available in GSTR-2A except for item (I) i.e. Raw Material A, for which supplier has not filed its GSTR-1 for the month of January 2024, hence corresponding input tax credit (ITC) is not reflecting in GSTR-2A of KNK Ltd. in January, 2024.

Compute the following:

- (i) Amount of eligible input tax credit (ITC) available for the month of January, 2024.

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- (ii) **Minimum net GST payable in cash, for the month of January, 2024 after using available input tax credit.**

Working notes should form part of your answer. (PYP 8 Marks, Nov'20)

Answer 34

- (i) **Computation of amount of eligible ITC available for the month of January, 2024**

S. No.	Particulars	CGST (₹)	SGST (₹)
(I)	Raw materials B (90%) [Note-1]	45,000	45,000
(ii)	Construction of pipelines laid outside the factory premises [Note-2]	Nil	Nil
(iii)	Insurance charges paid for trucks used for transportation of goods [Note-3]	55,000	55,000
(iv)	Raw materials A [Note-4]	Nil	Nil
(v)	Eligible ITC on invoices the details of which are available in GSTR-2A	1,00,000 (45,000 + 55,000)	1,00,000 (45,000 + 55,000)
(vi)	ITC on invoices the details of which are not available in GSTR-2A, i.e. the invoices which have not been uploaded by the suppliers in their GSTR-1 [Note-4]	10,000	10,000
	Total eligible ITC	1,10,000	1,10,000

Notes:

- ITC on goods destroyed is blocked under section 17 of the CGST Act, 2017.
- ITC on works contract services availed for construction of plant and machinery is allowed but pipelines laid outside the factory premises are excluded from the definition of plant and machinery and hence, ITC thereon is blocked.
- ITC on motor vehicles used for transportation of goods is allowed. Further, ITC is also allowed on insurance services relating to motor vehicles, ITC on which is allowed.
- Where invoice has not been uploaded by the supplier in its GSTR-1, 10% of the eligible ITC available in respect of the uploaded invoices can be claimed by the recipient, i.e. 10% of ₹ 1,00,000.

- (ii) **Computation of minimum net GST payable in cash for the month of January, 2020**

Particulars	Value (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Inter-State outward supplies	85,00,000			15,30,000
Intra-State outward supplies	15,00,000	1,35,000	1,35,000	
Total output tax payable		1,35,000	1,35,000	15,30,000
Less: Set off of CGST and SGST credit against CGST and SGST liability respectively		(1,10,000)	(1,10,000)	
Minimum net GST payable in cash		25,000	25,000	15,30,000

Question 35

CANWIN Ltd., a registered supplier, is engaged in the manufacture of Tanks.

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The company provides the following information pertaining to GST paid on the purchases made/input services availed by it during the month of January 2024:

	Particulars	GST Paid (₹)
(I)	Purchase of Machinery where debit note is issued	1,15,000
(ii)	Input purchased was directly delivered to Mr. Joe, a job worker and a registered supplier	80,000
(iii)	Computers purchased (Depreciation was claimed on the said GST portion under the Income-Tax Act, 1961)	50,000
(iv)	Works Contract services availed for construction of Staff quarters within the company premises	4,25,000

Determine the amount of ITC available to M/s. CANWIN Ltd. for the month of January 2024 by giving brief explanations for treatment of various items. Subject to the information given above, all the conditions necessary for availing the ITC have been fulfilled. (PYP 4 Mark, Nov'18)

Answer 35

Computation of input tax credit (ITC) available with
CANWIN Ltd. for the month of January 2024

Particulars	GST (₹)
Purchase of machinery where debit note is issued [Note-1]	1,15,000
Inputs directly delivered to a job worker supported by a valid document	80,000
Computers [Note-2]	Nil
Works contract services availed for construction of staff quarters within the company premises [Note-3]	Nil
Total ITC	1,95,000

Notes: -

- Input tax credit on goods purchased on the basis of debit note which is a valid document is allowed.
- Where depreciation has been claimed on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income-tax Act, 1961, the input tax credit on the said tax component is not allowed.
- Input tax credit on works contract services supplied for construction of an immovable property is specifically disallowed except where it is an input service for further supply of works contract service.

Question 36

Mr. Hemant, a registered supplier of chemicals, pays GST under regular scheme. He is not eligible for any threshold exemption. He has made the following outward taxable supplies for the month of September 2023:

Intra-State supply of goods	₹ 25,00,000
Inter-State supply of goods	₹ 5,00,000

He has also made the following inward supply:

Intra-State purchase of goods from registered dealer	₹ 14,00,000
Intra-State purchase of goods from unregistered dealer	₹ 2,00,000
Inter-State purchase of goods from registered	

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dealer

4,00,000

Balance of ITC at the beginning of September 2018:

CGST ₹ 95,000

SGST ₹ 60,000

IGST ₹ 50,000

Additional Information:

- He purchased a car (Intra-State supply) used for business purpose at a price of ₹ 6,72,000/- (including CGST of ₹ 36,000 & SGST of ₹ 36,000) on September 15, 2023. He capitalized the full value including GST in the books on the same date to claim depreciation.
- Out of Inter-State purchase from registered dealer, goods worth ₹ 1,00,000 were received on October 3, 2023 due to road traffic jams.

Note:

- Rate of CGST, SGST and IGST to be 9%, 9% and 18% respectively.
- Both inward and outward supplies given above are exclusive of taxes, wherever applicable.
- All the conditions necessary for availing the ITC have been fulfilled except mentioned above. Compute the net CGST, SGST and IGST payable in cash by Mr. Hemant for the month of September, 2023. (PYP 8 Marks, May'19)

Answer 36

Computation of net GST payable in cash of Mr. Himanshu for September, 2018

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Total tax liability				
Intra-State outward supplies of goods	25,00,000	2,25,000	2,25,000	
Inter-State outward supplies of goods	5,00,000			90,000
Total tax liability (A)		2,25,000	2,25,000	90,000
Input Tax Credit (ITC)				
Brought forward ITC		95,000	60,000	50,000
Intra-State purchase of goods from registered dealer [Note-1]	14,00,000	1,26,000	1,26,000	
Inter-State purchase of goods from registered dealer [Note-1 and Note 4]	3,00,000	-	-	54,000
Intra-State purchase of goods from unregistered dealer [Note-2]	2,00,000	-	-	-
Purchase of car used for business purpose [Note-3]	-	-	-	-
Total ITC (B)		2,21,000	1,86,000	1,04,000
Net GST liability = (A)-(B)		4,000	39,000	(14,000)
Less: Set off from IGST credit [Note-5]		4,000	10,000	
Net GST payable in cash		Nil	29,000	Nil

Notes:

- Every registered person is entitled to take credit of input tax charged on any

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inward supply of goods used/intended to be used in the course/furtherance of his business.

- Intra-State supplies received by a registered person from any unregistered supplier, are exempt from the whole of the tax leviable thereon under reverse charge till 30.09.2019. Since no tax has been paid, so no credit is available.
- Input tax paid on capital goods cannot be availed as ITC if depreciation has been claimed on such tax component. Moreover, ITC on motor vehicle (car) is blocked under section 17(5) of CGST Act, 2017.
- A registered person is entitled to avail input tax in respect of any supply of goods to him only if he has actually received the said goods. Since goods worth ₹ 1,00,000 have not been received by Mr. Himanshu in the month of September 2018, credit in respect of same cannot be claimed in the said month.
- Input tax credit of IGST has been used to pay IGST, CGST and SGST in that order.

Question 37

X Electronics is a registered manufacturer of electrical appliances. It made contract with dealers, that purchase of air conditioners of capacity 1.5 ton in the month of October, 2023 of quantity of more than 50 units will entitle them for 10% discount. Inter-State supply made during the month of October 2023 is ₹ 50,00,000 Details of Intra-State supply:

Particulars	Amount (₹)
Supply of Microwave Oven	15,00,000
Supply of Refrigerators with Stabilizers being a mixed supply, rate of GST on Refrigerator is 28% (14% CGST & 14% SGST), rate of GST on Stabilizer is 18% (9% CGST & 9% SGST)	40,00,000
Supply of Air Conditioners of capacity 1.5 Ton @ ₹ 50,000 per Air Conditioner	50,00,000

Intra-State inward supplies are:

Particulars	Amount (₹)
Raw material	20,00,000
Paid Gym membership for employees	50,000
Truck purchased for transportation of goods	30,00,000

X Electronics made supply of Air Conditioners (capacity 1.5 ton) to only one dealer named Mr. L.

Gym membership for employees is not obligatory for X Electronics under any law.

Opening Balance of ITC is as under:

CGST: ₹ 58,000

SGST: ₹ 70,000

IGST: ₹ 10,00,000

Note:

- Rate of CGST, SGST and IGST are 9%, 9% and 18% respectively for both inward and outward supplies except where specifically provided.
- Both inward and outward supplies are exclusive of taxes.
- All the conditions for availing the ITC have been fulfilled.

Compute the Net GST payable in cash by X Electronics for the month of October, 2023. (PYP 8 Marks, July'21)

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Answer 37

Computation of net GST payable in cash by X Electronics for October 2023

Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Intra-State supply				
Supply of microwave oven	15,00,000	1,35,000	1,35,000	
Supply of refrigerators with stabilizers [Being mixed supply, the supply shall be treated as a supply of that particular supply which attracts the highest rate of tax and taxed accordingly. Thus, it will be taxed @ 14% CGST and 14% SGST.]	40,00,000	5,60,000	5,60,000	
Supply of 100 (₹ 50 lakh/₹ 50,000) air conditioners [Since 100 air conditioners have been supplied, discount @ 10% will be available.] ¹	45,00,000 [₹ 50,00,000 x 90%]	4,05,000	4,05,000	

¹ It has been presumed that there is one supply transaction for 100 ACs and thus, the discount has been given in the invoice itself. Alternatively, even if there have been multiple supply transactions for the ACs during the month and the discount has been given vide credit note, it has been presumed that the credit note has been issued in October 2023 and all other conditions prescribed in section 15(3)(b) of the CGST Act, 2017 have been complied with. Thus, the effect of the discount has been adjusted in the month of October 2020 itself.

Inter-State supply @ 18%	50,00,000			9,00,000
Total outward tax liability		11,00,000	11,00,000	9,00,000
Less: Input Tax Credit (Refer Working Note below)				
IGST credit first utilized towards payment of IGST. Remaining amount can be utilized towards CGST and SGST in any order and in any proportion		1,00,000 (IGST)		9,00,000 (IGST)
CGST credit set off against CGST liability and SGST credit set off against SGST liability as CGST credit cannot be utilized towards payment of SGST and vice versa.		5,08,000 (CGST)	5,20,000 (SGST)	
Net GST liability payable in cash		4,92,000	5,80,000	Nil

Working Note

Computation of ITC available with X Electronics

Particulars	CGST (₹)	SGS T	IGST (₹)
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			(₹)	
Opening balance of ITC		58,000	70,000	10,00,000
Intra-State inward supplies				
Raw material	20,00,000	1,80,000	1,80,000	
Gym membership for employees [ITC on membership of a health and fitness centre is blocked if there is no statutory obligation for the employer to provide the same.]	50,000	Nil	Nil	
Truck purchased for transportation of goods [ITC on motor vehicles used for transportation of goods is not blocked.]	30,00,000	2,70,000	2,70,000	
Total ITC		5,08,000	5,20,000	10,00,000

Note: In the above answer, tax payable in cash has been computed by setting off the IGST credit against CGST liability. However, since IGST credit can be set off against CGST and SGST liability in any order and in any proportion, the same can be set off against CGST and/or SGST liabilities in different other ways as well. In all such cases, net CGST and net SGST payable in cash will differ though the total amount of net GST payable (₹ 10,72,000) in cash will remain the same.

Question 38

Mr. B, a registered supplier of Uttar Pradesh, is doing the trading of taxable goods. He approaches you to understand the manner of utilization of available Input Tax Credit (ITC). With reference to the provisions of payment of tax, state the manner of utilization of ITC under GST law. (PYP 5 Marks May'22)

Answer 38

The manner of utilization of ITC under GST law is as under:

1. IGST credit should first be utilized towards payment of IGST.
2. Remaining IGST credit, if any, can be utilized towards payment of CGST and SGST/UTGST in any order and in any proportion.
3. Entire ITC of IGST should be fully utilized before utilizing the ITC of CGST or SGST/UTGST.
4. Subsequently, ITC of CGST should be utilized for payment of CGST and IGST in that order.
5. ITC of SGST /UTGST should be utilized for payment of SGST/UTGST and IGST in that order.
6. ITC of SGST/UTGST should be utilized for payment of IGST, only after ITC of CGST has been utilized fully.
7. ITC of SGST/UTGST cannot be utilized for payment of CGST and vice versa.

Question 39

From the following information, compute the Net GST payable for the month of March, 2024: -

	Output GST	Amount in ` Opening ITC as Per credit ledger
CGST	2,000	Nil
SGST	15,000	1,000
IGST	24,000	37,000

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Paper 3 - Taxation**(PYP 4 Marks, Nov'18)****Answer 39****Computation of net GST payable for the month of March, 2024**

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Output tax payable	2,000	15,000	24,000
Less: Opening ITC as per credit ledger	(Nil) -CGST	(1,000)- SGST	(24,000)- IGST
	(2,000)- IGST	(11,000)- IGST	
Net GST payable	Nil	3,000	Nil

Note:

Input tax credit of IGST has been used to pay IGST, CGST and SGST in that order.

Question 40

Paritosh & Co., a supplier of goods, pays GST under regular scheme. It has made the following outward taxable supplies in a tax period:

Particulars	Amount (₹)
Intra-State supply of goods	10,00,000
Inter-State supply of goods	8,00,000

It has also furnished the following information in respect of purchases made by it in that tax period:

Particulars	Amount (₹)
Intra-State purchases of goods	3,00,000
Inter-State purchases of goods	2,50,000

Paritosh & Co. has following ITCs with it at the beginning of the tax period:

Particulars	Amount (₹)
CGST	57,000
SGST	60,000
IGST	1,40,000

Note:

- (i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.
- (ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.
- (iii) All the conditions necessary for availing ITC have been fulfilled.

Compute the minimum GST, payable in cash, by Paritosh & Co. for the tax period and the ITC to be carried forward to the next month. Make suitable assumptions as required. (RTP Nov'21,)

Answer 40**Computation of GST payable on outward supplies**

S.No.	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (Rs.)
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(i)	Intra-State supply of goods for ₹ 10,00,000	90,000	90,000		1,80,000
(ii)	Inter-State supply of goods for ₹ 8,00,000			1,44,000	1,44,000
Total GST payable					3,24,000

Computation of total ITC

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening ITC	57,000	60,000	1,40,000
Add: ITC on Intra-State purchases of goods valuing ₹ 3,00,000	27,000	27,000	Nil
Add: ITC on Inter-State purchases of goods valuing ₹ 2,50,000	Nil	Nil	45,000
Total ITC	84,000	87,000	1,85,000

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
GST payable	90,000	90,000	1,44,000	3,24,000
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(38,000) IGST	(3,000) IGST	(1,44,000) IGST	1,85,000
	(52,000) CGST	(87,000) SGST		1,39,000
Minimum GST payable incash	Nil	Nil	Nil	Nil
ITC balance to be carried forward next month	32,000	Nil	Nil	32,000

Note: The above computation is one of the many ways to set off the ITC of IGST (₹ 41,000 - after set off against IGST liability) against CGST and SGST liability to compute minimum GST payable in cash. To illustrate, IGST of ₹ 10,000 can be set off against SGST payable and IGST of ₹ 31,000 can be set off against CGST payable. In this situation also, the net GST payable will be nil but the ITC of CGST and SGST to be carried forward will be ₹ 25,000 and ₹ 7,000 (totaling to ₹ 32,000) respectively. However, if the entire ITC of ₹ 41,000 is set off against CGST payable, then SGST of ₹ 3,000 will be payable in cash thus, increasing the cash outflow. Therefore, such a set off would not be advisable for computing the minimum GST payable.

Paper 3 - Taxation**Section - B****Question 1****What is input tax?****Answer 1**

Input tax means the central tax (CGST), State tax (SGST), integrated tax (IGST) or Union territory tax (UTGST) charged on supply of goods or services or both made to a registered person. It also includes tax paid on reverse charge basis and integrated goods and services tax charged on import of goods. It does not include tax paid under composition levy.

Question 2**What are the conditions necessary for availing ITC?****Answer 2**

Following four conditions are to be satisfied by the registered taxable person for obtaining ITC:

- he is in possession of tax invoice or debit note or such other tax paying documents as may be prescribed;
- he has received the goods or services or both;
- subject to section 41, the supplier has actually paid the tax charged in respect of the supply to the Government; and
- he has furnished the return under section 39.

Question 3**Can a person take ITC without payment of consideration for the supply along with tax?****Answer 3**

Yes, the recipient can take ITC. However, he is required to pay the consideration along with tax within 180 days from the date of issue of invoice. This condition is not applicable where tax is payable on reverse charge basis.

Question 4**What is the time limit for taking ITC and reasons therefor?****Answer 4**

Refer point (vi) "Time limit for availing ITC: Due date of filing return for the month of September of succeeding financial year or date of filing of annual return, whichever is earlier" under Heading No. 3 "Eligibility and Conditions for Taking Input Tax Credit [Section 16]".

Question 5**What is the ITC entitlement of a newly registered person?****Answer 5**

A person applying for registration can take input tax credit of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date of grant of registration. If the person was liable to take registration and he has applied for registration within thirty days from the date on which he became liable to registration, then ITC of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date on which he became liable to pay tax can be taken.

In case of voluntary registration, ITC of such goods held in stock on the day immediately preceding the date of registration can be taken.

Question 6**What is the tax implication of supply of capital goods by a registered person who had taken ITC on such capital goods?**

Paper 3 - Taxation

Answer 6

In case of supply of capital goods or plant and machinery on which ITC has been taken, the registered person shall pay an amount equal to the ITC taken on the said capital goods or plant and machinery reduced by 5% per quarter or part thereof from the date of invoice or the tax on the transaction value of such capital goods, whichever is higher. However, in case of refractory bricks, moulds and dies, jigs and fixtures when these are supplied as scrap, the person can pay tax on the transaction value.

Question 7

A registered person transfers its business to another person.

Is such registered person allowed to transfer the unutilized ITC lying in its electronic credit ledger to such transferred business? Discuss.

Answer 7

As per section 18(3), in case of sale, merger, demerger, amalgamation, transfer or change in ownership of business etc., the ITC that remains unutilized in the electronic credit ledger of the registered person can be transferred to the new entity, provided there is a specific provision for transfer of liabilities in such change of constitution.

The registered person should furnish the details of change in constitution on the common portal and submit a certificate from practicing Chartered Account/Cost Accountant certifying that the change in constitution has been done with a specific provision for transfer of liabilities. Upon acceptance of such details by the transferee on the common portal, the unutilized ITC gets credited to his electronic credit ledger. The transferee should record the inputs and capital goods so transferred in his books of account.

Question 8

Swastik Pvt. Ltd. is a manufacturer of taxable goods. It purchased a machinery for ₹ 8,00,000 on which IGST of ₹ 14,400 is paid. The company has claimed depreciation under the Income-tax Act, 1961 on the full value of the machine, i.e. including the IGST component as also availed ITC of ₹ 14,400 paid by it as IGST. Examine if the stand taken by the company is correct in law.

Answer 8

As per section 16(3), if the person taking the ITC on capital goods and plant and machinery has claimed depreciation on the tax component of the cost of the said items under the Income-tax Act 1961, the ITC on the said tax component shall not be allowed. Since in the given case, Swastik Pvt. Ltd. has claimed depreciation on the tax component of the cost of the machine, it cannot claim ITC of IGST of ₹ 14,400 paid by it on the machine. It can either claim depreciation on the tax component or avail ITC of such tax but cannot avail both the benefits simultaneously.

Question 9

Sigma Consultants, an LLP of finance professionals, provides financial consultancy services. It made an advance payment of ₹ 1,18,000 (inclusive of IGST @ 18%) in the month of October to Azuro Computer Services for developing a software. The software would be used by the LLP to enhance the precision of the financial advice given by it to various clients. The balance payment is to be made after the successful test run of the software in the month of December. Sigma Consultants has availed ITC of IGST of ₹ 18,000 in the month of October. Do you think Sigma Consultants can avail such ITC? Examine the scenario with reference to the relevant legal provisions.

Answer 9

As per section 16(2)(b), tax paid on supply of goods and/or services can be availed as ITC only if such goods and/or services are received by the registered person. In the given case, Sigma Consultants has paid IGST of ₹ 18,000, in the month of October, on

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advance for IT services intended to be used in the course or furtherance of business. However, it cannot avail ITC of such tax in the month of October as the services in relation to which the advance payment has been made have not been received in that month.

Question 10

A taxable person is in the business of information technology. He buys a car (maximum seating capacity – 5 persons) for use of his Executive Directors. Can he avail the ITC in respect of GST paid on purchase of such car?

Answer 10

No. ITC on motor vehicles for transportation of persons with seating capacity of up to 13 persons (including driver), can be availed only if the taxable person is in the business of transport of passengers or is providing the services of imparting training on driving such motor vehicles or is in the business of supply of such motor vehicles.

Question 11

A technical testing agency tests and certifies each batch of machine tools before dispatch by BMT Ltd. Some of these tools are dispatched to a unit in a SEZ without payment of GST as these supplies are not taxable.

The finance personnel of BMT Ltd. want to know whether they need to carry out reversal of ITC on the testing agency's services to the extent attributable to the SEZ supplies. Give your comments.

Answer 11

ITC is disallowed only to the extent it pertains to supplies used for non-business purposes or supplies other than taxable and zero-rated supplies. Supplies to SEZ units are zero rated supplies in terms of section 16(1) of the IGST Act. Thus, full ITC is allowed on inward supplies of BMT Ltd. used for effecting supplies to the unit in the SEZ.

Question 12

'AB', a registered person, was paying tax under composition scheme up to 30th July. However, w.e.f. 31st July, 'AB' becomes liable to pay tax under regular scheme. Is 'AB' eligible for any ITC?

Answer 12

'AB' is eligible for ITC on inputs held in stock and inputs contained in semi- finished or finished goods held in stock and capital goods as on 30th July. ITC on capital goods will be reduced by 5% per quarter or part thereof from the date of invoice.

Question 13

Babla Enterprises 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 Enterprises was ` 50 lakh. Examine the eligibility of Babla Enterprises for availing ITC, if any.

Answer 13

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

Assuming that Babla Enterprises 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)]. Input tax paid on capital goods will not be available as ITC in this case.

Question 14

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Mamta Trade Links 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 Trade Links for availing ITC, if any, on inputs and/or capital goods used in the supply of exempt goods.

Answer 14

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

As per section 18(1)(d), Mamta Trade Links 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. ITC on capital goods will be reduced by 5% per quarter or part thereof from the date of invoice.

Question 15

Harshgeet Pvt. Ltd., a registered supplier, is engaged in the manufacture of taxable goods. The company provides the following information pertaining to purchases made/services availed by it during the month of July:

S. No	Particulars	GST (₹)
(1)	Raw material (to be received in the month of September)	2,50,000
(2)	Membership of a club availed for employees working in the factory	1,45,000
(3)	Inputs to be received in 5 lots, out of which 3 rd lot was received during the month	80,000
(4)	Trucks used for transport of raw material	40,000
(5)	Capital goods (out of 3 items, invoice for 2 items is missing and GST paid on those items is ₹ 80,000)	1,50,000

Determine the amount of ITC available with Harshgeet Pvt. Ltd. for the month of July by giving the necessary explanation for treatment of various items. Subject to the information given above, all the other conditions necessary for availing ITC have been fulfilled.

Answer 15

Computation of ITC available with Harshgeet Pvt. Ltd. for the month of July

Particulars	ITC (₹)
Raw Material [ITC not available as raw material is not received in July]	Nil
Membership of a club availed for employees working in the factory [Blocked credit in terms of section 17(5)]	Nil
Inputs to be received in 5 lots, out of which 3 rd lot was received during the month [In case of goods received in lots, ITC can be taken only upon receipt of the last lot]	Nil
Trucks used for transport of raw material [ITC of GST paid on motor vehicles used for transportation of goods is allowed unconditionally]	40,000
Capital goods [ITC can be availed only on the basis of a valid document (invoice). Thus, GST paid on items for which invoice is missing,	70,000

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i.e. ₹ 80,000, is not available.]	
Total ITC	1,10,000

Question 16

Jamku Ltd., a registered person, is engaged in the business of spices. It provides following details in relation to GST paid on inward supplies procured by it during the month of October.

S. No.	Particulars	GST (₹)
(1)	Raw spices purchase - Raw spices sold to customers - Raw spices used for personal use of directors	50,000 20,000
(2)	Electric machinery purchased for being used in the manufacturing process	25,000
(3)	Motor vehicle used for transportation of the employee	55,000
(4)	Payment made to contractor for construction of staff quarter	1,25,000

Determine the amount of ITC available with Jamku Ltd. for the month October by giving the necessary explanation for treatment of various items. Subject to the information given above, all the other conditions necessary for availing ITC have been fulfilled.

Answer 16

Computation of ITC available with Jamku Ltd. for the month of October

Particulars	ITC (₹)
Purchase of raw spices which are sold to customers [Every registered person is entitled to take credit of input tax charged on any supply of goods to him which are used or intended to be used in the course or furtherance of his business.]	50,000
Purchase of raw spices for personal use of directors [ITC is not available on goods used for personal consumption.]	Nil
Electric machinery purchased for being used in the manufacturing process [Every registered person is entitled to take credit of input tax charged on any supply of goods to him which are used or intended to be used in the course or furtherance of his business.]	25,000
Motor vehicle used for transportation of employee [ITC on motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) is blocked except when the same are used for (i) making further taxable supply of such motor vehicles (ii) making taxable supply of transportation of passengers (iii) making taxable supply of imparting training on driving such motor vehicles.]	Nil
In the given case, since the supplier is in the business of spices, ITC on motor vehicle used for transportation of the employee is blocked credit.]	
Payment made to contractor for construction of staff quarter [ITC is not available on goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business.]	Nil
Total ITC	75,000

Question 17

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Dina Ltd., a registered supplier from Maharashtra, is engaged in the manufacture of passenger autos. The company provides the following details of purchases made/services availed by it during the month of March:

S. No.	Particulars	GST (₹)
(1)	Purchase of iron which is used as a raw material [Goods were received in two instalments - first in March and the second in April]	2,50,000
(2)	Purchase of accessories which were delivered directly to the dealers of the company on the direction of Dina Ltd. [Only invoice was received by Dina Ltd.]	90,000
(3)	Purchase of bus (seating capacity 15) for the transportation of employees from their residence to company and back	1,97,000
(4)	General insurance taken on a car used by executives of the company for official purposes	5,200

You are required to determine the ITC available with Dina Ltd. for the month of March, by giving brief explanations for treatment of various items. Subject to the information given above, all the other conditions necessary for availing ITC have been fulfilled.

Answer 17

Computation of ITC available with Dina Ltd. for the month of March

Particulars	ITC (₹)
Purchase of iron used as a raw material [When inputs are received in instalments, ITC can be availed only on the receipt of last instalment. Hence, since last instalment is received in April, ITC cannot be availed in March.]	Nil
Purchase of accessories delivered directly to the dealers of the company [Goods delivered to another person on the direction of the registered person by way of transfer of documents of title or otherwise, either before or during the movement, are deemed to have been received by such registered person. Thus, ITC is available to the registered person, on whose order/direction the goods are delivered to a third person.]	90,000
Bus for the transportation of employees [ITC on motor vehicles for transportation of persons with seating capacity > 13 persons (including the driver) used for any purpose is allowed.]	1,97,000
General insurance taken on car used by executives of the company for official purpose	Nil
[ITC on motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) is blocked except when the same are used for (i) making further taxable supply of such motor vehicles (ii) making taxable supply of transportation of passengers (iii) making taxable supply of imparting training on driving such motor vehicles. Further, ITC is not allowed on services of general insurance relating to such ineligible motor vehicles. Since, the car is not used for any of the eligible purposes, ITC thereon is blocked and thus, ITC on general insurance taken on such car is also blocked.]	
Total ITC	2,87,000

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Question 18

Comfortable (P) Ltd. is registered under GST in the State of Odisha. It is engaged in the business of manufacturing of iron and steel products. It has received IT engineering services from High-Fi Infotech (P) Ltd. for ₹ 11,00,000/- (excluding GST @ 18%) on 28th October. Invoice for service rendered was issued on 5th November. Comfortable (P) Ltd. made part payment of ₹ 4,20,000/- on 30th November. Being unhappy with service provided by High-fi Infotech (P) Ltd., it did not make the balance payment. Deficiency in service rendered was made good by High-Fi Infotech (P) Ltd. by 15th April of next year. Comfortable (P) Ltd. made the balance payment on 6th July of next year. Examine the availability of ITC with Comfortable (P) Ltd. in respect of IT engineering services received by it from High-Fi Infotech (P) Ltd.

Answer 18

Every registered person is entitled to take credit of input tax charged on any supply of goods and/or services which are used or intended to be used in the course or furtherance of his business if, *inter alia*, he is in possession of a tax invoice issued by a supplier and he has received the goods and/or services. The registered person must pay to the supplier, the value of the goods and/or services along with the tax within 180 days from the date of issue of invoice. In the event of failure to do so, the corresponding credits availed by the registered person would be added to his output tax liability, with interest. However, once the recipient makes the payment of value of goods and/or services along with tax, he will be entitled to avail the credit again without any time limit. In case part-payment has been made, proportionate credit would be allowed. In the given case, High-fi Infotech (P) Ltd. provides the service in the month of October and Comfortable (P) Ltd. receives the invoice in the month of November. Therefore, in view of the above provisions and assuming all other conditions required for availing ITC having been fulfilled, ITC of ₹ 1,98,000 ($11,00,000 \times 18\%$) will be availed by Comfortable (P) Ltd. in the month of November when it receives the invoice issued by High-fi Infotech (P) Ltd. However, proportionate ITC amounting to ₹ 1,33,932 $[(12,98,000 - 4,20,000)/118] \times 18$ will be added to the output tax liability of Comfortable (P) Ltd. as full payment has not been made within 180 days of issuance of the invoice, i.e. by 4th May of next year. ITC of ₹ 1,33,932 can, however, be availed again by Comfortable (P) Ltd. in the month of July next year when it makes the balance payment.

Question 19

M/s. Diwan & Sons of New Delhi, has placed an order for 250 kg of plastic granules @ ₹ 50 per kg (exclusive of GST) on M/s. Karim & Bros. of Noida, U.P. M/s. Karim & Bros. has agreed to deliver the goods at the warehouse of M/s. Diwan & Sons at New Delhi. While the order was getting packed at the factory of M/s. Karim & Bros., M/s. Diwan & Sons got an order from Shubhkamna Sales of Hapur, U.P. for 250 kg of plastic granules @ ₹ 60 per kg (exclusive of GST). In order to save on transportation cost, M/s. Diwan & Sons asks M/s. Karim & Bros. to directly deliver the plastic granules to Shubhkamna Sales at its godown located in Hapur. Accordingly, M/s. Karim & Bros. has delivered the plastic granules at the godown of Shubhkamna Sales at Hapur. Examine the availability of ITC with M/s. Diwan & Sons & M/s. Karim & Bros. Note: All the parties are registered under GST and rate of GST is 18%.

Answer 19

One of the conditions for availing ITC is that the registered person taking the ITC must have received the goods and / or services. However, goods delivered to a third person on the direction of the registered person by way of transfer of documents of title or otherwise, either before or during the movement, are deemed to have been received by such registered person. So, ITC is available to the registered person, on whose order the

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goods are delivered to a third person even though the registered person does not receive the goods. In the given case, goods have been delivered by M/s. Karim & Bros. (supplier) to Shubhkamna Sales (third person) on the direction of M/s. Diwan & Sons (registered person). Therefore, in view of the above provisions, ITC of ₹ 2,250 (₹ 50 x 250 x 18%) will be available to M/s. Diwan & Sons (registered person) on the purchase of 250 kg of plastic granules @ 50 per kg. Further, in this case there is another supply between Diwan & Sons (supplier) and Shubhkamna Sales (recipient). Therefore, Shubhkamna Sales can avail ITC of ₹ 2,700 (₹ 60 x 250 x 18%) on the purchase of 250 kg of plastic granules @ 60 per kg.

Question 20

Paritosh & Co., a supplier of goods, pays GST under regular scheme. It has made the following outward taxable supplies in a tax period:

Particulars	Amount (₹)
Intra-State supply of goods	10,00,000
Inter-State supply of goods	8,00,000

It has also furnished the following information in respect of purchases made by it in that tax period:

Particulars	Amount (₹)
Intra-State purchases of goods	3,00,000
Inter-State purchases of goods	2,50,000

Paritosh & Co. has following ITCs with it at the beginning of the tax period:

Particulars	Amount (₹)
CGST	57,000
SGST	60,000
IGST	1,40,000

Note:
(iv) Rates

of CGST, SGST and IGST are 9%, 9% and 18% respectively.

- (v) Both inward and outward supplies are exclusive of taxes, wherever applicable.
- (vi) All the conditions necessary for availing ITC have been fulfilled.

Compute the minimum GST, payable in cash, by Paritosh & Co. for the tax period and the ITC to be carried forward to the next month. Make suitable assumptions as required.

Answer 20

Computation of GST payable on outward supplies

S.No.	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (Rs.)
(i)	Intra-State supply of goods for ₹ 10,00,000	90,000	90,000		1,80,000
(ii)	Inter-State supply of goods for ₹ 8,00,000			1,44,000	1,44,000
	Total GST payable				3,24,000

Computation of total ITC

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Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening ITC	57,000	60,000	1,40,000
Add: ITC on Intra-State purchases of goods valuing ₹ 3,00,000	27,000	27,000	Nil
Add: ITC on Inter-State purchases of goods valuing ₹ 2,50,000	Nil	Nil	45,000
Total ITC	84,000	87,000	1,85,000

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
GST payable	90,000	90,000	1,44,000	3,24,000
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(38,000) IGST	(3,000) IGST	(1,44,000) IGST	1,85,000
	(52,000) CGST	(87,000) SGST		1,39,000
Minimum GST payable incash	Nil	Nil	Nil	Nil
ITC balance to be carried forward next month	32,000	Nil	Nil	32,000

Note: The above computation is one of the many ways to set off the ITC of IGST (₹ 41,000 - after set off against IGST liability) against CGST and SGST liability to compute minimum GST payable in cash. To illustrate, IGST of ₹ 10,000 can be set off against SGST payable and IGST of ₹ 31,000 can be set off against CGST payable. In this situation also, the net GST payable will be nil but the ITC of CGST and SGST to be carried forward will be ₹ 25,000 and ₹ 7,000 (totaling to ₹ 32,000) respectively. However, if the entire ITC of ₹ 41,000 is set off against CGST payable, then SGST of ₹ 3,000 will be payable in cash thus, increasing the cash outflow. Therefore, such a set off would not be advisable for computing the minimum GST payable.

AMENDMENTS MADE VIDE THE FINANCE ACT, 2021

The Finance Act, 2021 has come into force from 28.03.2021. However, most of the amendments made in the CGST Act and the IGST Act vide the Finance Act, 2021 would become effective only from a date to be notified by the Central Government in the Official Gazette. Such a notification has not been issued till 30.04.2021. Therefore, the applicability or otherwise of such amendment for May 2022 and/or November 2022 examinations shall be informed by the ICAI by way of an announcement.

In the table given below, the existing provisions¹⁰ of section 16(2) of the CGST Act are compared with the provisions as amended by the Finance Act, 2021. Once the announcement for applicability of such amendments for examination(s) is made by the ICAI, students should read the amended provisions given hereunder in place of the related provisions discussed in the Chapter.

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Section No./ Schedule No.	Existing provisions	Provisions as amended by the Finance Act, 2021	Remarks
16(2) (a)	Section 16(2) of CGST Act prescribes conditions for availing ITC by a registered person. Clause (a) of section 16(2) provides for availment of ITC only when the recipient of goods or services is in possession of tax invoice or debit note or any other tax paying document issued by a supplier.	New clause (aa) shall be inserted following section 16(2)(a): “the details of the invoice or debit note referred to in clause (a) has been furnished by the supplier in the statement of outward supplies and such details have been communicated to the recipient of such invoice or debit note in the manner specified under section 37”	A new clause (aa) to sub-section (2) of the section 16 of the CGST Act is being inserted to provide that input tax credit on invoice/debit note may be availed only when the details of such invoice/debit note have been furnished by the supplier in the statement of outward supplies and such details have been communicated to the recipient of such invoice/debit note.

Question 21 (Illustration)

Vijay Sales, a registered supplier, receives 100 invoices (for inward supply of goods/ services) involving GST of ₹ 10 lakh, from various suppliers during the month of October. Out of 100 invoices, details of 80 invoices involving GST of ₹ 6 lakh have been furnished by the suppliers in their respective GSTR-1s filed on the prescribed due date therefor. Compute the ITC that can be claimed by Vijay Sales in its GSTR-3B for the month of October to be filed by 20th November assuming that GST of ₹ 10 lakh is otherwise eligible for ITC.

Answer 21

ITC to be claimed by Vijay Sales in its GSTR-3B for the month of October to be filed by 20th November will be computed as under-

Invoices	Amount of ITC involved in the invoices (₹)	Amount of ITC that can be availed (₹)
80 invoices furnished in GSTR-1	6 lakh	6 lakh [Refer Note 1]
20 invoices not furnished in GSTR-1	4 lakh	0.3 lakh [Refer Note 2]
Total	10 lakh	6.30 lakh

Notes:

- (1) 100% ITC can be availed on invoices furnished by the suppliers in their GSTR-1.
- (2) As per rule 36(4), the ITC in respect of invoices not furnished by the suppliers in their GSTR-1s is restricted to 5% of eligible ITC in respect of invoices furnished in GSTR-1s. Thus, in respect of 20 invoices not furnished in GSTR-1s, the ITC has been restricted to ₹ 0.30 lakh [5% of ₹ 6 lakh].

Question 23 (Illustration)

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Paper 3 - Taxation

ABC Co. Ltd., registered under GST, is engaged in the manufacture of heavy machinery. It procured the following items during the month of July.

S. No.	Items	GST (₹)
(i)	Electrical transformers to be used in the manufacturing process	5,20,000
(ii)	Trucks used for the transport of raw material	1,00,000
(iii)	Raw material	2,00,000
(iv)	Confectionery items. These items were supplied free of cost to the customers in a customer meet organized by the company	25,000

Determine the amount of ITC available with ABC Co. Ltd., for the month of July by giving necessary explanations for treatment of various items. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.

Answer 23

Computation of ITC available with ABC Co. Ltd. for the month of July

S. No.	Items	ITC (₹)
(i)	Electrical transformers [Being goods used in the course or furtherance of business, ITC thereon is available in terms of section 16(1)]	5,20,000
(ii)	Trucks used for the transport of raw material [ITC on motor vehicles used for transportation of goods is not blocked under section 17(5)(a)]	1,00,000
(iii)	Raw material [Being goods used in the course or furtherance of business, ITC thereon is available in terms of section 16(1)]	2,00,000
(iv)	Confectionery items for consumption of customers at customers meet [ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply-Section 17(5)(b)(i)]	Nil
	Total ITC	8,20,000

Question 24 (Illustration)

XYZ Ltd., registered under GST, is engaged in manufacture of taxable goods. Compute the ITC available with XYZ Ltd. for the month of October from the following particulars:-

S.No.	Inward supplies	GST (₹)	Remarks
(i)	Inputs 'A'	1,00,000	One invoice on which GST payable was ₹ 10,000, is missing
(ii)	Inputs 'B'	50,000	Inputs are to be received in two instalments. First instalment has been received in October
(iii)	Capital goods	1,20,000	XYZ Ltd. has capitalized the capital goods at full invoice value inclusive of GST as it will avail depreciation on the full invoice value.

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Paper 3 - Taxation

(iv)	Input services	2,25,000	One invoice dated 20 th January on which GST payable was ₹ 50,000 has been received in October
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Note:

- (i) **Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled.**
- (ii) **The annual return for the previous financial year was filed on 15th September.**

Answer 24

Computation of ITC available with XYZ Ltd. for the month of October

S. No.	Inward supplies	ITC (₹)
(i)	Inputs 'A' [ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC-Section 16(2)(a)]	90,000
(ii)	Inputs 'B' [When inputs are received in instalments, ITC can be availed only on receipt of last instalment-First proviso to section 16(2)]	Nil
(iii)	Capital goods [Input tax paid on capital goods cannot be availed as ITC, if depreciation has been claimed on such tax component – Section 16(3)]	Nil
(iv)	Input services [As per section 16(4), ITC on an invoice cannot be availed after the due date of furnishing of the return for the month of September following the end of financial year to which such invoice pertains or the date of filing annual return, whichever is earlier. Since the annual return for the previous financial year has been filed on 15 th September (prior to due date of filing the return for the month of September, i.e. 20 th October), ITC on the invoice pertaining to previous financial year cannot be availed after 15 th September.	1,75,000
	Total ITC	2,65,000

Question 25 (Illustration)

XT Pvt. Ltd., a supplier of goods, pays GST under regular scheme. It has made the following outward taxable supplies in a tax period:

Particulars	Amount (₹)
Intra-State supply of goods	8,00,000
Inter-State supply of goods	3,00,000

It has also furnished the following information in respect of purchases made by it in that tax period:

Particulars	Amount (₹)
Intra-State purchases of goods	2,00,000
Inter-State purchases of goods	50,000

The company has following ITCs with it at the beginning of the tax period:

Particulars	Amount (₹)
CGST	57,000

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Paper 3 - Taxation

SGST	Nil
IGST	70,000

Note:

- (i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.
 (ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.

(iii) All the conditions necessary for availing the ITC have been fulfilled.

Compute the minimum GST, payable in cash, by XT Pvt. Ltd. for the tax period. Makesuitable assumptions as required.

Answer 25

Computation of GST payable on outward supplies

S. No.	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
(i)	Intra-State supply of goods for ₹ 8,00,000	72,000	72,000		1,44,000
(ii)	Inter-State supply of goods for ₹ 3,00,000			54,000	54,000
	Total GST payable				1,98,000

Computation of total ITC

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening ITC	57,000	Nil	70,000
Add: ITC on Intra-State Purchases of goods valuing ₹ 2,00,000	18,000	18,000	Nil
Add: ITC on Inter-State Purchases of goods valuing ₹ 50,000	Nil	Nil	9,000
Total ITC	75,000	18,000	79,000

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
GST payable	72,000	72,000	54,000	1,98,000
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(Nil) IGST	(25,000) IGST	(54,000) IGST	79,000
	(72,000) CGST	(18,000) SGST		90,000
Minimum GST payable in cash	Nil	29,000	Nil	29,000

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.

Paper 3 - Taxation

Chapter 9 Registration

Attempt wise Distribution

Attempts	May '18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May '22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q4,Q5,Q6,Q7									
RTP					Q2,Q3,Q8,Q9,Q10		Q1					
Q & A												
MTP	Q16	Q22, Q35	Q15,Q19, Q23,Q34	Q13, Q17	Q21		Q18	Q20		Q14	Q24, Q25	
PYP		Q4, Q5	Q2,Q33	Q6	Q32	Q7, Q31	Q8	Q3, Q36	Q37	Q1		
RTP	Q26	Q12		Q27	Q11			Q28	Q10	Q9, Q29	Q30	

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. **Mr. Z of Himachal Pradesh starts a new business and makes following supplies in the first month-**
- (iii) **Intra-State supply of taxable goods amounting to ₹ 17 lakh**
 - (iv) **Supply of exempted goods amounting to ₹ 1 lakh**
 - (v) **Inter-State supply of taxable goods amounting to ₹ 1 lakh Whether he is required to obtain registration?**
 - (a) Mr. Z is liable to obtain registration as the threshold limit of ₹ 10 lakh is crossed.
 - (b) Mr. Z is not liable to obtain registration as he makes exempted supplies.
 - (c) Mr. Z is liable to obtain registration as he makes the inter-State supply of goods.
 - (d) Mr. Z is not liable to obtain registration as the threshold limit of ₹ 20 lakh is not crossed. **(RTP May '21)**

Ans: (c)

2. **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.**
- (a) 30th August
 - (b) 29th August
 - (c) 29th September
 - (d) 29th October **(RTP Nov '20)**

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Paper 3 - Taxation**Ans: (a)**

3. Mr. Pappu Singh, commenced his business in Feb-20XX. He has established following units:

1. Unit A (in SEZ) and Unit B (non-SEZ) in the State of Maharashtra
2. Unit C in Delhi
3. Unit D and E in the State of Goa

Mr. Pappu Singh has approached you to help him in determining the States and number of registrations he is required to take under GST (presuming the fact that he is making taxable supply from each State and his aggregate turnover exceeds the threshold limit):

- (a) Maharashtra-2: Delhi-1, Goa-Optional 1 or 2
- (b) Maharashtra-Optional 1 or 2: Delhi-1, Goa-Optional 1 or 2
- (c) Maharashtra-1: Delhi-1, Goa-1
- (d) Maharashtra-2: Delhi-1, Goa-2 **(RTP May '20)**

Ans: (a)

4. Aanya, an individual, based in Gujarat, is in employment and earning ₹ 10 lakh as salary. She is also providing consultancy services to different organizations on GST implications of business. Her turnover from the supply of such services is ₹ 12 lakh. Determine whether Aanya is liable for taking registration as per provisions of the CGST Act?

- (a) Yes, as her aggregate turnover is more than ₹ 20 lakh.
- (b) No, as her aggregate turnover is less than ₹ 40 lakh.
- (c) No, as services in the course of employment does not constitute supply and therefore, aggregate turnover is less than ₹ 20 lakh.
- (d) Yes, since she is engaged in taxable supply of services. **(MTP 2 Marks April 22)**

Ans: (c)

5. A person having ____ business verticals in a State obtain a separate registration for each business vertical.

- (a) Single, shall
- (b) Multiple, shall
- (c) Multiple, may
- (d) Single, may **(MTP 2 Marks, April'19)**

Ans:**(c)**

6. Which of the following statements are correct?

- (i) **Revocation of cancellation of registration under CGST/SGST Act shall be deemed to be a revocation of cancellation of registration under SGST/CGST Act.**
- (ii) **Cancellation of registration under CGST/SGST Act shall be deemed to be a cancellation of registration under SGST/CGST Act.**
- (iii) **Revocation of cancellation of registration under CGST/SGST Act shall not be deemed to be a revocation of cancellation of registration under SGST/CGST Act.**
- (iv) **Cancellation of registration under CGST/SGST Act shall not be deemed to be a cancellation of registration under SGST/CGST Act.**
 - (a) (I) and (ii)
 - (b) (I) and (iv)
 - (c) (ii) and (iii)
 - (d) (iii) and (iv) **(MTP 2Marks, Oct'19)**

Ans: (a)

Paper 3 - Taxation

7. Registration certificate granted to casual taxable person or non-resident taxable person will be valid for:

- (a) Period specified in the registration application
- (b) 90 days from the effective date of registration
- (c) Earlier of (a) or (b)
- (d) Later of (a) or (b) **(MTP 1 Mark, April'19)**

Ans: (c)

8. Miss. Raksha is engaged in providing private coaching services in Noida, Uttar Pradesh and is not registered under GST till 25-Sep-20XX. Her aggregate turnover is ₹19,00,000/- on 30-Sep-20XX. She got GST registration on 30-Sep-20XX. Which of the following options are available to her?

- (i) She can pay tax @ 18%, charge it from customer and avail full input tax credit on procurements made.
- (j) She can pay tax @ 6% under exemption scheme for service providers but she cannot charge GST from customer and also cannot avail input tax credit.
- (k) She is not liable for registration since her aggregate turnover is less than ₹40,00,000/-
- (l) Either (a) or (b) **(RTP May '20)**

Ans: (d)

9. A non-resident taxable person is required to apply for registration:

- (a) within 30 days from the date on which he becomes liable to registration
- (b) within 60 days from the date on which he becomes liable to registration
- (c) at least 5 days prior to the commencement of business
- (d) None of the above **(RTP May '20)**

Ans: (c)

10. Kalim & Associates made an application for cancellation of GST registration in the month of March due to closure of its business. Its application for cancellation of GST registration was approved on 14th September. In the given case, Kalim & Associates is:

- (a) required to file Final Return on or before 13th December
- (b) not required to file Final Return
- (c) required to file Final Return on or before 30th September
- (d) required to file Final Return on or before 14th December **(RTP Nov '20)**

Ans: (d)

Question & Answers

Question 1

Answer the following, after reading the below given paragraph:

- (i) **Briefly discuss the relevant provision**
- (ii) **decide the correct conclusion and**
- (iii) **determine the validity of the given advice (Correct/Incorrect)**

Dharun provides service as a business facilitator to Zio Bank Limited by facilitating in opening of bank accounts to villagers in its rural branches in Punjab and earned a commission of ₹ 22 lakh in the month of April, 2022. So far he is not registered under GST. Dharun's tax consultant advised him that he is liable for registration under GST as his gross receipts exceeded ₹ 20 lakh. Dharun has

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Paper 3 - Taxation

no other receipt/ business activity other than the above. (PYP 2 Marks Nov '22)

Answer 1

Services by a business facilitator to a banking company with respect to accounts in its rural area branch is exempt from GST.

Since in the given case, Dharun is engaged exclusively in providing the exempt services, it is not liable to obtain registration even though his aggregate turnover exceeds ₹ 20 lakh.

Thus, the advice given by his tax consultant is not correct.

Question 2

Answer the following questions with respect to casual taxable person under the CGST Act, 2017:

- (i) **Who is a casual taxable person?**
- (ii) **Can a casual taxable person opt for the composition scheme?**
- (iii) **When is the casual taxable person liable to get registered?**
- (iv) **What is the validity period of the registration certificate issued to a casual taxable person?**
- (v) **Can the validity of registration certificate issued to a casual taxable person be extended? If yes, what will be the period of extension. (PYP 5 Marks, May'19)**

Answer 2

- (ii) Casual taxable person means a person who occasionally undertakes transactions involving supply of goods and/or services in the course or furtherance of business, whether as principal, agent or in any other capacity, in a State/UT where he has no fixed place of business.
- (iii) No, a casual taxable person cannot opt for the composition scheme.
- (iv) A casual taxable person (CTP) is liable to obtain registration compulsorily under GST laws, at least 5 days prior to commencement of business. However, threshold limit of ₹ 20 lakh (₹ 10 lakh in case of Special Category States other than Jammu & Kashmir) is available in case of CTP making taxable supplies of specified handicraft goods.
- (v) The registration certificate issued to a casual taxable person will be valid for:
 - (a) the period specified in the registration application, or
 - (b) 90 days from the effective date of registration whichever is earlier.
- (vi) Yes, the validity of registration certificate issued to a casual taxable person can be extended.
It can be extended by a further period not exceeding 90 days.

Question 3

Q Ltd. is engaged exclusively in supply of taxable goods from the following states. The particulars of intra-state supplies for the month of May 2021 are as follows:

State	Turnover (₹)
Madhya Pradesh	5,00,000
Gujarat	14,00,000
Tripura	12,00,000

- (i) **Q Ltd. seeks to know whether it is liable for registration under GST. Give your explanation.**
- (ii) **Will your answer be different if Q Ltd. supplies only petrol & diesel from Tripura instead of any other taxable goods? (PYP 4 Marks Dec '21)**

Answer 3

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Paper 3 - Taxation

Every person engaged in making a taxable supply is required to obtain registration if his aggregate turnover exceeds ₹ 20 lakh in a financial year. An enhanced threshold limit for registration of ₹ 40 lakh is available to persons engaged exclusively in intra-State supply of goods in specified States. However, the applicable threshold limit for registration gets reduced to ₹ 10 lakh in case a person is engaged in making supply from a specified Special Category State provided such supply is a taxable supply.

- (i) Since Q Ltd. is making supply of taxable goods from Tripura – a specified Special Category State, the applicable threshold limit will get reduced to ₹ 10 lakh. Thus, it is liable to be registered under GST as its aggregate turnover [₹ 31 lakh] exceeds the said threshold limit.
- (ii) In case Q Ltd. is making supply of non-taxable goods [petrol and diesel] from Tripura, the applicable threshold limit will not be reduced to ₹ 10 lakh; enhanced threshold limit of ₹ 40 lakh will be applicable.

Thus, it is not liable to be registered under GST as its aggregate turnover [₹ 31 lakh] does not exceed the said threshold limit.

It has been assumed that Q Ltd. is not engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa [2105 00 00], Pan masala [2106 90 20] and all goods of Chapter 24, i.e. Tobacco and manufactured tobacco substitutes

Question 4

Mr. Allan, a non-resident person, wishes to provide taxable supply of goods. He has no fixed place of business or residence in India. He seeks your advice on the following aspects, relating to CGST Act, 2017:

- (i) **When shall he apply for registration?**
- (ii) **Is PAN mandatory for his registration?**
- (iii) **What is the period of validity of RC granted to him? Will he be able to extend the validity of his registration? If yes, what will be the period of extension? (PYP 5 Marks, Nov'18)**

Answer 4

- (i) Mr. Allan, being a non-resident person, should apply for registration, irrespective of the threshold limit, at least 5 days prior to the commencement of business.
- (ii) No, PAN is not mandatory for his registration. He has to submit a self-attested copy of his valid passport along with the application signed by his authorized signatory who is an Indian Resident having valid PAN. However, in case of a business entity incorporated or established outside India, the application for registration shall be submitted along with its tax identification number or unique number on the basis of which the entity is identified by the Government of that country or its PAN, if available.
- (iii) Registration Certificate granted to Mr. Allan will be valid for:
 - a. Period specified in the registration application, or
 - b. 90 days from the effective date of registration whichever is earlier.
- (iv) Yes, Mr. Allan can get the validity of his registration extended. Registration can be extended further by a period not exceeding 90 days.

Question 5

Registration under the CGST Act, 2017 can be cancelled by the proper officer, if the voluntarily registered person has not commenced the business within three months from the date of registration. (PYP 1.5, Marks, Nov'18)

Answer 5

The said statement is False.

Registration under the CGST Act, 2017 can be cancelled by the proper officer, if the voluntarily registered person has not commenced the business within six months from the date of registration.

Paper 3 - Taxation

Question 6

Explain the registration requirements under GST law in the following independent cases:

- (i) **Mr. Ahmad of Jammu engaged in the business of supplying tobacco based Pan Masala with an aggregate turnover of ₹ 24 lacs.**
- (ii) **Mr. Lepta of Mizoram is engaged in the supply of papers with an aggregate turnover of ₹ 13 lacs. Will your answer be different if Mr. Lepcha is located in Meghalaya? (PYP 5 Marks, Nov'19)**

Answer 6

- (i) A person is eligible for enhanced threshold limit of ₹ 40 lakh in the State of Jammu and Kashmir if he is engaged exclusively in intra-State supply of goods. However, the enhanced threshold limit is not applicable if the person is engaged, inter alia, in the supply of pan masala and all goods of chapter 24 i.e. Tobacco and manufactured tobacco substitutes. In that case, the normal threshold limit of ₹ 20 lakh will be applicable.
In view of said provisions, in the given case, Mr. Ahmad is liable to register since his aggregate turnover (₹ 24 lakh) exceeds the applicable threshold limit for registration of ₹ 20 lakh.
- (ii) The enhanced threshold limit of ₹ 40 lakh as applicable to a person engaged exclusively in intra-State supply of goods, is not applicable to Mizoram [a specified Special Category State]. Instead, a lower threshold limit of ₹ 10 lakh for registration is applicable for Mizoram.
Thus, in the given case, Mr. Lepcha of Mizoram is liable to register since his aggregate turnover (₹ 13 lakh) exceeds the applicable threshold limit for registration of ₹ 10 lakh. The enhanced threshold limit of ₹ 40 lakh is also specifically not applicable in the State of Meghalaya. Instead, the normal threshold limit of ₹ 20 lakh for registration is applicable to it. Therefore, if Mr. Lepcha is located in Meghalaya, he is not liable to register since his aggregate turnover (₹ 13 lakh) does not exceed the applicable threshold limit for registration of ₹ 20 lakh.

Question 7

Explain the circumstances under which proper officer can cancel the registration on his own of a registered person under CGST Act, 2017. (PYP 5 Marks. Jan'21)

Answer 7

The circumstances under which proper officer can cancel the registration on his own of a registered person under the CGST Act, 2017 are as under: -

- (i) A registered person has contravened any of the following prescribed provisions of the GST law:
 - (a) He does not conduct any business from the declared place of business.
 - (b) He issues invoice/bill without supply of goods/services in violation of the provisions of GST law.
 - (c) He violates the provisions of anti-profiteering.
 - (d) He violates the provisions relating to furnishing of bank details.
- (ii) A person paying tax under composition levy has not furnished returns for 3 consecutive tax periods.
- (iii) A registered person paying tax under regular scheme has not furnished returns for continuous period of 6 months.
- (iv) Voluntarily registered person has not commenced the business within 6 months from the date of registration.
- (v) Registration was obtained by means of fraud, willful misstatement or suppression of facts.

Paper 3 - Taxation

Question 8

Examine the following cases and explain with reasons whether the supplier of goods is liable to get registered in GST:

- (i) **Krishna of Himachal Pradesh is exclusively engaged in intra-State taxable supply of readymade suits. His turnover in the current financial year from Himachal Pradesh showroom is ` 25 lakh. He has two more showrooms one in Manipur & another in Sikkim with a turnover of ` 15 lakh and ` 18 lakh respectively in the current financial year.**
- (ii) **Ankit of Telangana is exclusively engaged in intra-State taxable supply of footwear's. His aggregate turnover in the current financial year is ` 25 lakh:**
- (iii) **Aakash of Uttar Pradesh is exclusively engaged in intra-State supply of pan masala. His aggregate turnover in the current financial year is ` 30 lakh. (PYP 5 Marks, July'21)**

Answer 8

Every person engaged in making a taxable supply is required to obtain registration if his aggregate turnover exceeds ` 20 lakh in a financial year. An enhanced threshold limit for registration of ` 40 lakh is available to persons engaged exclusively in intra-State supply of goods in specified States.

- (i) The applicable threshold limit for registration gets reduced to ` 10 lakh in case a person is engaged in making taxable supply from a Special Category State. Since Krishna is making taxable supply from Manipur – a Special Category State, the applicable threshold limit will get reduced to ` 10 lakh. Thus, it is liable to be registered under GST as its aggregate turnover exceeds the said threshold limit.
- (ii) Since Ankit is exclusively engaged in intra-State supply of goods in Telangana, which is not a specified State for enhanced threshold limit, the applicable threshold limit for registration is ` 20 lakh. Thus, Ankit is liable to be registered under GST as its aggregate turnover exceeds the said threshold limit.
- (iii) Though the enhanced threshold limit for registration of ` 40 lakh is available to Uttar Pradesh, the same will not be applicable if the person is engaged in supply of pan masala. In view of the same, the applicable threshold limit for Aakash is ` 20 lakh. Thus, it is liable to be registered under GST as its aggregate turnover exceeds the said threshold limit.

Question 9

“Aadhaar authentication is not required for persons who are already registered under GST.” Examine and discuss the correctness of the statement. You are required to elaborate the relevant legal provisions. (RTP Nov'22)

Answer 9

The given statement is incorrect. Aadhaar authentication has been made mandatory for the new registrants as well as for the existing registrants. With regard to existing registrants, section 25(6A) of the CGST Act, 2017 stipulates that every registered person shall undergo authentication, or furnish proof of possession of Aadhaar number, in the prescribed form, manner and time. New rule 10B of the CGST Rules, 2017 prescribes the manner in which aadhaar authentication needs to be done by a registered person. A registered person, who has been issued a certificate of registration under GST, shall undergo authentication of the Aadhaar number of:-

- Proprietor, in the case of proprietorship firm,
- Any partner, in the case of a partnership firm,
- Karta, in the case of a Hindu undivided family,
- Managing director or any whole-time director, in the case of a company,
- Any of the Members of the Managing Committee of an Association of persons or body of individuals or a Society, or
- Trustee in the Board of Trustees, in the case of a Trust; and of the Authorized Signatory,

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in order to be eligible for the following purposes:

- ✓ for filing of application for revocation of cancellation of registration [Rule 23]
- ✓ for filing of refund application in Form RFD-01 [Rule 89]
- ✓ for refund of the IGST paid on goods exported out of India [Rule 96]

First proviso to section 25(6A) of the CGST Act, 2017 provides that if an Aadhaar number is not assigned to an existing registered person, such person shall be offered alternate and viable means of identification in the prescribed manner. Such manner has been prescribed by rule 10B of the CGST Rules, 2017 as follows:

If Aadhaar number has not been assigned to the person required to undergo authentication of the Aadhaar number, such person shall furnish the following identification documents, namely: –

- (a) his/ her Aadhaar Enrolment ID slip; and
- (b) (i) Bank passbook with photograph; or
- (ii) Voter identity card issued by the Election Commission of India; or
- (iii) Passport; or
- (iv) Driving license issued by the Licensing Authority

However, once Aadhaar number is allotted to such person, he shall undergo the authentication of Aadhaar number within a period of 30 days of the allotment of the Aadhaar number.

The afore-said rule 10B shall not be applicable to persons notified under section 25(6D) of the CGST Act, 2017, i.e. to persons exempt from aadhaar authentication.

Question 10

Mr. X of Haryana intends to start business of supply of building material to various construction sites in Haryana. He has taken voluntary registration under GST in the month of April. However, he has not commenced the business till December due to lack of working capital. The proper officer suo-motu cancelled the registration of Mr. X. You are required to examine whether the action taken by proper officer is valid in law?

Mr. X has applied for revocation of cancellation of registration after 40 from the date of service of the order of cancellation of registration. Department contends that application for revocation of cancellation of registration can only be made within 30 days from the date of service of the order of cancellation of registration. However, Mr. X contends that the period of submission of application may be extended on sufficient grounds being shown. You are required to comment upon the validity of contentions raised by Department and Mr. X.(RTP May '22)

Answer 10

As per section 29 of the CGST Act, 2017, the proper officer may cancel the registration of a person from such date, including any retrospective date, as he may deem fit, where,-

- (a) a registered person has contravened such provisions of the Act or the rules made thereunder as may be prescribed; or
- (b) a person paying tax under composition scheme has not furnished returns ~~for three consecutive tax periods~~ **As per amendment -the return for a financial year beyond 3 months from the due date of furnishing the said return)** or
- (c) any registered person, other than a person specified in clause (b), has not furnished returns ~~for a continuous period of six months~~ **such continuous tax period as may be prescribed;** or
- (d) any person who has taken voluntary registration under sub-section (3) of section 25 has not commenced business within six months from the date of registration; or
- (e) registration has been obtained by means of fraud, wilful misstatement, or suppression of facts:

Thus, in view of the above-mentioned provisions, suo-motu cancellation of registration

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of Mr. X by proper officer is valid in law since Mr. X, a voluntarily registered person, has not commenced his business within 6 months from the date of registration. Further, where the registration of a person is cancelled suo-motu by the proper officer, such registered person may apply for revocation of the cancellation to such proper officer, within 30 days from the date of service of the order of cancellation of registration **(As per Amendment: or within such time period as extended by the Additional Commissioner or the Joint Commissioner or the Commissioner, as the case may be, in exercise of the powers provided under the proviso to section 30(1)).**

However, the said period of 30 days may, on sufficient cause being shown and for reasons to be recorded in writing, be extended for a period not exceeding 30 days by Additional/Joint Commissioner and by further period not exceeding 30 days by Commissioner. Thus, considering the above provisions, the contention of Department is not valid in law as extension can be sought in the prescribed time limit for revocation of cancellation of registration. The contention raised by Mr. X is valid in law as extension in time limit is allowed on sufficient cause being shown and for reasons to be recorded in writing.

Question 11

Examine whether the supplier is liable to get registered in the following independent cases:-

- (v) **Raghav of Assam is exclusively engaged in intra-State taxable supply of readymade garments. His turnover in the current financial year (FY) from Assam showroom is ₹ 28 lakh. He has another showroom in Tripura with a turnover of ₹ 11 lakh in the current FY.**
- (vi) **Pulkit of Panjim, Goa is exclusively engaged in intra-State taxable supply of shoes. His aggregate turnover in the current financial year is ₹ 22 lakh.**
- (vii) **Harshit of Himachal Pradesh is exclusively engaged in intra-State supply of pan masala. His aggregate turnover in the current financial year is ₹ 24 lakh.**
- (viii) **Ankit of Assam is exclusively engaged in intra-State supply of taxable services. His aggregate turnover in the current financial year is ₹ 25 lakh.**
- (ix) **Sanchit of Assam is engaged in intra-State supply of both taxable goods and services. His aggregate turnover in the current financial year is ₹ 30 lakh. (RTP May '20)**

Answer 11

As per section 22 of the CGST Act, 2017 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra - State taxable supplies of goods is as under:-

- (c) ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.
- (d) ₹ 20 lakh for the States of States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
- (e) ₹ 40 lakh for rest of India. However, the higher threshold limit of ₹ 40 lakh is not available to persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.

The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-

- (a) ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.
- (b) ₹ 20 lakh for the rest of India.

In the light of the afore-mentioned provisions, the Answer to the independent cases is as under:-

- (i) Raghav is eligible for higher threshold limit of turnover for registration, i.e. ₹ 40 lakh

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as he is exclusively engaged in intra-State supply of goods. However, since Raghav is engaged in supplying readymade garments from a Special Category State i.e. Tripura, the threshold limit gets reduced to ₹ 10 lakh. Thus, Raghav is liable to get registered under GST as his turnover exceeds ₹10 lakh. Further, he is required to obtain registration in both Assam and Tripura as he is making taxable supplies from both the States.

- (ii) The applicable threshold limit for registration for Pulkit in the given case is ₹ 40 lakh as he is exclusively engaged in intra-State taxable supply of goods. Thus, he is not liable to get registered under GST as his turnover is less than the threshold limit.
- (iii) Harshit being exclusively engaged in supply of pan masala is not eligible for higher threshold limit of ₹40 lakh. The applicable threshold limit for registration in this case is ₹20 lakh. Thus, Harshit is liable to get registered under GST.
- (iv) Though Ankit is dealing in Assam, he is not entitled for higher threshold limit for registration as the same is applicable only in case of exclusive supply of goods while he is exclusively engaged in providing services. Thus, the applicable threshold limit for registration in this case is ₹ 20 lakh and hence, Ankit is liable to get registered under GST.
- (v) Since Sanchit is engaged in supply of both taxable goods and services, the applicable threshold limit for registration in his case is ₹ 20 lakh. Thus, Sanchit is liable to get registered under GST as his turnover is more than the threshold limit.

Question 12

Discuss the circumstances where registration is liable to be cancelled.(RTP Nov '18)

Answer 12

Section 29(1) of the CGST Act, 2017 provides that the proper officer may, either on his own motion or on an application filed by the registered person or by his legal heirs, in case of death of such person, cancel the registration, in such manner and within such period as may be prescribed, having regard to the circumstances where:

- (a) the business has been discontinued, transferred fully for any reason including death of the proprietor, amalgamated with other legal entity, demerged or otherwise disposed of; or
- (b) there is any change in the constitution of the business; or
- (c) the taxable person, other than the person registered under sub-section (3) of section 25, is no longer liable to be registered under section 22 or section 24
Further, section 29(2) of the CGST Act, 2017 provides that the proper officer may cancel the registration of a person from such date, including any retrospective date, as he may deem fit, where,—
 - (a) a registered person has contravened such provisions of the Act or the rules made thereunder as may be prescribed; or
 - (b) a person paying tax under section 10 has not furnished ~~returns for three consecutive tax periods~~ **(As per amendment -the return for a financial year beyond 3 months from the due date of furnishing the said return);** or
 - (c) any registered person, other than a person specified in clause (b), has not furnished returns for ~~a continuous period of six months~~ **such continuous tax period as may be prescribed;** or
 - (d) any person who has taken voluntary registration under sub-section (3) of section 25 has not commenced business within six months from the date of registration; or
 - (e) registration has been obtained by means of fraud, wilful misstatement or suppression of facts
Further, the proper officer shall not cancel the registration without giving the person an opportunity of being heard.
- (ii) Section 49(8) of CGST Act, 2017 prescribes the chronological order in which the

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liability of a taxable person has to be discharged:

- (a) self -assessed tax and other dues for the previous tax periods have to be discharged first.
- (b) self -assessed tax and other dues for the current tax period have to be discharged next.
- (c) Once these two steps are exhausted, thereafter any other amount payable including demand determined under section 73 or section 74 is to be discharged. In other words, the liability if any, arising out of demand notice and adjudication proceedings comes last. This sequence has to be mandatorily followed. The expression "other dues" referred above mean interest, penalty, fee or any other amount payable under the Act or the rules made thereunder.

Question 13

The aggregate turnover of Sangri Services Ltd., Delhi, exceeded ₹ 20 lakhs on 12th August. He applied for registration on 3rd September and was granted the registration certificate on 6 the September. You are required to advise Sangri Services Ltd. as to what is the effective date of registration in its case. It has also sought your advice regarding period for issuance of Revised Tax Invoices. (MTP 6 Marks, Oct'19)

Answer 13

As per section 25 read with CGST Rules, 2017, where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration. Since, Sangri Services Ltd.'s turnover exceeded ₹ 20 lakhs on 12th August, it became liable to registration on same day. Further, it applied for registration within 30 days of so becoming liable to registration, the effective date of registration is the date on which he becomes liable to registration, i.e. 12th August. As per section 31 read with CGST Rules, 2017, every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue Revised Tax Invoices. Revised Tax Invoices shall be issued within 1 month from the date of issuance of certificate of registration. Revised Tax Invoices shall be issued within 1 month from the date of issuance of registration in respect of taxable supplies effected during the period starting from the effective date of registration till the date of issuance of certificate of registration.

Therefore, in the given case, Sangri Services Ltd. has to issue the Revised Tax Invoices in respect of taxable supplies effected during the period starting from the effective date of registration (12th August) till the date of issuance of certificate of registration (6th September) within 1 month from the date of issuance of certificate of registration, i.e. on or before 6th October.

Question 14

Examine whether the supplier of goods is liable to get registered in the following independent cases:-

- (i) **Aryabhatt of Assam is exclusively engaged in intra-State taxable supply of readymade garments. His turnover in the current financial year (FY) from Assam showroom is ₹ 12 lakh. He has another showroom in Manipur with a turnover of ₹ 11 lakh in the current FY.(Sep'22)**
- (ii) **Bharat of Panjim, Goa is exclusively engaged in intra-State taxable supply of shoes. His aggregate turnover in the current financial year is ₹ 22 lakh.(Sep'22)**
- (iii) **Vikramaditya of Himachal Pradesh is exclusively engaged in intra-State supply of bricks of fossil meals. His aggregate turnover in the current financial year is ₹ 24 lakh.(MTP 6 Marks Sep'22)**

Answer 14

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A supplier is liable to get registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

- (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
- (b) ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
- (c) ₹ 40 lakh for rest of India except persons engaged in making supplies of fly ash bricks/blocks, building bricks, bricks of fossil meals, earthen/roofing tiles, ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.

In the light of the afore-mentioned provisions, the answer to the independent cases is as under:-

- (i) Aryabhatt is eligible for enhanced threshold limit of turnover for registration, i.e. ₹ 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Aryabhatt is engaged in supplying readymade garments from a specified Special Category State i.e. Manipur also, the threshold limit gets reduced to ₹ 10 lakh.

Thus, Aryabhatt is liable to get registered under GST as his turnover exceeds ₹ 10 lakh. Further, he is required to obtain registration in both Assam and Manipur as he is making taxable supplies from both the States.

- (ii) The applicable threshold limit for registration for Bharat in the given case is ₹ 40 lakh as he is exclusively engaged in intra-State taxable supply of goods in Goa. Thus, he is not liable to get registered under GST as his turnover is less than the applicable threshold limit.
- (iii) Vikramaditya being exclusively engaged in supply of bricks of fossil meals is not eligible for enhanced threshold limit of ₹ 40 lakh. The applicable threshold limit for registration in this case is ₹20 lakh. Thus, Vikramaditya is liable to get registered under GST as his aggregate turnover exceeds the threshold limit for registration.

Question 15

What is the validity period of the registration certificate issued to a casual taxable person and non-resident taxable person? (MTP 5 Marks March 22)

Answer 15

In terms of section 27(1) of the CGST Act, 2017 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.

Question 16

Tirupati Box Manufacturing Co. started manufacturing corrugated boxes in Andhra Pradesh on 25.01.20XX. On 06.05.20XX, its aggregate turnover exceeded ₹ 10 lakh and on 01.11.20XX, its aggregate turnover exceeded ₹ 20 lakh. It applied for registration on 28.11.20XX and is granted

4. **registration certificate on 05.12.20XX. Determine the effective date of registration elaborating the**
5. **relevant provisions. (MTP 4 Marks, March'18)**

Answer 16

As per section 22 of the CGST Act, a supplier is liable to be registered in the State/

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Union territory from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds ₹ 20 lakh [₹ 10 lakh in case of special category States except Jammu and Kashmir] **(As per amendment 40 Lakhs)**, within 30 days from the date on which it becomes so liable to registration. Where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration otherwise it is the date of grant of registration.

In the given case, threshold limit of registration for Tirupati Box Manufacturing Co. is ₹ 20 lakh as it is engaged in making taxable supplies from Andhra Pradesh. The aggregate turnover of Tirupati Box Manufacturing Co. exceeded ₹ 20 lakh **(As per amendment 40 Lakhs)** on 01.11.20XX. Thus, it is liable to get registered by 01.12.20XX [30 days] in the State of Andhra Pradesh. Since Tirupati Box Manufacturing Co. applied for registration on 28.11.20XX i.e. before the expiry of 30 days from the date on which it becomes so liable to registration, the effective date of registration in its case is 01.11.20XX.

Question 17

What could be the liabilities (in so far as registration is concerned) on transfer of a business? (MTP 2 Marks Oct'19)

Answer 17

The transferee or the successor shall be liable to be registered with effect from such transfer or succession and he will have to obtain a fresh registration with effect from the date of such transfer or succession.

Question 18

Examine whether the supplier is liable to get registered in the following independent cases: -

- (i) **Audi of Assam is exclusively engaged in intra-State supply of taxable services. His aggregate turnover in the current financial year is Rs. 25 lakhs.**
- (ii) **Atri of Assam is engaged in intra-State supply of both taxable goods and services. His aggregate turnover in the current financial year is Rs. 30 lakhs. (MTP 6 Marks, April'21)**

Answer 18

As per section 22 of the CGST Act, 2017 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:

- (a) Rs. 10 lakhs for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
 - (b) Rs. 20 lakhs for the rest of India.
- (i) Though Audi is dealing in Assam, he is not entitled for higher threshold limit for registration as the same is applicable only in case of exclusively supply of goods and he is exclusively engaged in providing services. Thus, the applicable threshold limit for registration in this case is Rs. 20 lakhs and hence, Audi is liable to get registered under GST.
 - (ii) Since Atri is engaged in supply of both taxable goods and services, the applicable threshold limit for registration in his case is Rs. 20 lakhs. Thus, Atri is liable to get registered under GST as his turnover is more than the threshold limit.

Question 19

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supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under: -

- (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
- (b) ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
- (c) ₹ 40 lakh for rest of India except persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.

In the light of the afore-mentioned provisions, the Answer to the independent cases is as under: -

- (i) Raghav is eligible for a higher threshold limit of turnover for registration, i.e. ₹ 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Raghav is engaged in supplying readymade garments from a Special Category State i.e. Tripura, the threshold limit gets reduced to ₹ 10 lakh. Thus, Raghav is liable to get registered under GST as his turnover exceeds ₹10 lakh. Further, he is required to obtain registration in both Assam and Tripura as he is making taxable supplies from both the States.
- (ii) The applicable threshold limit for registration for Pulkit in the given case is ₹ 40 lakh as he is exclusively engaged in intra-State taxable supply of goods in Goa. Thus, he is not liable to get registered under GST as his turnover is less than the threshold limit.
- (iii) Harshit being exclusively engaged in supply of pan masala is not eligible for higher threshold limit of ₹40 lakh. The applicable threshold limit for registration in this case is ₹20 lakh. Thus, Harshit is liable to get registered under GST.

Question 21

Examine whether the supplier is liable to get registered in the following independent cases: -

- (i) **Happy Ltd. of Himachal Pradesh is exclusively engaged in intra-State supply of pan masala. It's aggregate turnover in the current financial year is ₹ 24 lakh.**
- (ii) **Kaki Ltd. of Assam is exclusively engaged in intra-State supply of taxable services. It's aggregate turnover in the current financial year is ₹ 25 lakh.**
- (iii) **Aarau Ltd. of Assam is engaged in intra-State supply of both taxable goods and services. It's aggregate turnover in the current financial year is ₹ 30 lakh. (MTP 6 Marks, Oct'20)**

Answer 21

As per section 22 of the CGST Act, 2017 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under: -

- (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
- (b) ₹ 20 lakh for the States of States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
- (c) ₹ 40 lakh for rest of India. However, the higher threshold limit of ₹ 40 lakh is not available to persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masalas and Tobacco and manufactured tobacco substitutes.

The threshold limit for a person making exclusive taxable supply of services or

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supply of both goods and services is as under: -

- (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
- (b) ₹ 20 lakh for the rest of India.

In the light of the afore-mentioned provisions, the Answer to the independent cases is as under: -

- (i) Happy Ltd. being exclusively engaged in supply of pan masala is not eligible for higher threshold limit of ₹40 lakh. The applicable threshold limit for registration in this case is ₹20 lakh. Thus, Happy Ltd. is liable to get registered under GST.
- (ii) Though Kaki Ltd. is dealing in Assam, it is not entitled for higher threshold limit for registration as the same is applicable only in case of exclusive supply of goods while it is exclusively engaged in providing services. Thus, the applicable threshold limit for registration in this case is ₹ 20 lakh and hence, Kaki Ltd. is liable to get registered under GST.
- (iii) Since Aarau Ltd. is engaged in supply of both taxable goods and services, the applicable threshold limit for registration in this case is ₹ 20 lakh. Thus, Aarau Ltd. is liable to get registered under GST as its turnover is more than the threshold limit.

Question 22

Mr. Akash Malhotra of Gujarat often participates in the jewellery exhibition at Trade Fair in Delhi, which is organised every year in the month of February. Mr. Akash Malhotra applied for registration in January. The proper officer demanded an advance deposit of tax in an amount equivalent to the estimated tax liability of Mr. Akash Malhotra. You are required to examine whether any advance tax is to be paid by Mr. Akash Malhotra at the time of obtaining registration? (MTP 4 Marks, Aug'18)

Answer 22

Yes, advance tax is to be paid by Mr. Akash Malhotra at the time of obtaining registration. Since Mr. Akash Malhotra 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.

Question 23

The aggregate turnover of Priyank Services Ltd. exceeded Rs.20 lakh on 12th August. He applied for registration on 3rd September and was granted the registration certificate on 6 th September. You are required to advice Priyank Services Ltd. as to what is the effective date of registration in its case. It has also sought your advice regarding period for issuance of Revised Tax Invoices. (MTP 6 Marks, April'19)

Answer 23

As per section 25 read with CGST Rules, 2017, where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration. Since, Priyank Services Ltd.'s turnover exceeded Rs. 20 lakh on 12th August, it became liable to registration on same day. Further, it applied for

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registration within 30 days of so becoming liable to registration, the effective date of registration is the date on which he becomes liable to registration, i.e. 12th August. As per section 31 read with CGST Rules, 2017, every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue Revised Tax Invoices. Revised Tax Invoices shall be issued within 1 month from the date of issuance of certificate of registration. Revised Tax Invoices shall be issued within 1 month from the date of issuance of registration in respect of taxable supplies effected during the period starting from the effective date of registration till the date of issuance of certificate of registration. Therefore, in the given case, Priyanka Services Ltd. has to issue the Revised Tax Invoices in respect of taxable supplies effected during the period starting from the effective date of registration (12th August) till the date of issuance of certificate of registration (6th September) within 1 month from the date of issuance of certificate of registration, i.e. on or before 6th October.

Question 24

Does cancellation of registration impose any tax obligations on the person whose registration is so cancelled? (MTP 5 Marks April 22, MTP 3 Marks, Aug'18,)

Answer 24

Yes, as per section 29(5) of the CGST Act, 2017, every registered person whose registration is cancelled shall pay an amount, by way of debit in the electronic credit ledger or electronic cash ledger, equivalent to the credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock or capital goods or plant and machinery on the day immediately preceding the date of such cancellation or the output tax payable on such goods, whichever is higher.

Question 25

Determine the effective date of registration in following cases:

- The aggregate turnover of Dhampur Footwear Industries of Delhi has exceeded the applicable threshold limit of ₹ 40 lakh on 1st September. It submits the application for registration on 20th September. Registration certificate is granted to it on 25th September.**
- Mehta Teleservices is an architect in Lucknow. Its aggregate turnover exceeds ₹ 20 lakh on 25th October. It submits the application for registration on 27th November. Registration certificate is granted to it on 5th December. (MTP 6 Marks March '23, MTP 6 Marks May'20, MTP 4 Marks Oct'19)**

Answer 25

- Every supplier becomes liable to registration if his turnover exceeds the applicable threshold limit [₹ 40 lakh in this case] in a financial year. Since in the given case, the turnover of Dhampur Industries exceeded ₹ 40 lakh on 1st September, it becomes liable to registration on said date. Further, since the application for registration has been submitted within 30 days from such date, the registration shall be effective from the date on which the person becomes liable to registration. Therefore, the effective date of registration is 1 st September.
- Since in the given case, the turnover of Mehta Teleservices exceeds the applicable threshold limit [₹ 20 lakh] on 25th October, it becomes liable to registration on said date. Further, since the application for registration has been submitted after 30 days from the date such person becomes liable to registration, the registration shall be effective from the date of grant of registration. Therefore, the effective date of registration is 5th December.

Question 26

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Paper 3 - Taxation

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

Sr. No.	Particulars	₹
(i)	Supply of machine oils in Delhi	2,00,000
(ii)	Supply of high speed diesel in Delhi	4,00,000
(iii)	Supply made through Fortis Lubricants - an agent of Pure Oils in Delhi	3,75,000
(iv)	Supply made by Pure Oils from its branch located in Punjab	1,80,000

***excluding GST**

Determine whether Pure Oils is liable for registration. Will your Answer change, if Pure Oils supplies machine oils amounting to ₹ 2,50,000 from its branch located in Himachal Pradesh in addition to the above-mentioned supplies?(RTP May '18)

Answer 26

As per section 22 of the CGST Act, 2017, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds ₹ 20 lakh. **(As per amendment the Government may at the request of a State or recommendation of the Council enhance the aggregate turnover from 20 Lakhs to such an amount not exceeding 40 Lakhs in case of supplier who is exclusively engaged in the supply of goods subject to such conditions & limitations as may be notified)**

However, if such taxable supplies are made from any of the specified special category States, namely, States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand, he shall be liable to be registered if his aggregate turnover in a financial year exceeds ₹ 10 lakh. **(As per amendment the Government may at the request of a State or recommendation of the Council enhance the aggregate turnover from 10 Lakhs to such an amount not exceeding 20 Lakhs in case of supplier who is exclusively engaged in the supply of goods subject to such conditions & limitations as may be notified)**

As per section 2(6) of the CGST Act, 2017, aggregate turnover includes the aggregate value of:

- (i) all taxable supplies,
- (ii) all exempt supplies,
- (iii) exports of goods and/or services and
- (iv) all inter-State supplies of persons having the same PAN.

The above is computed on all India basis. Further, the aggregate turnover excludes central tax, State tax, Union territory tax, integrated tax and cess. Moreover, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of 'aggregate turnover'.

Further, the explanation to section 22 provides that the expression "aggregate turnover" shall include all supplies made by the taxable person, whether on his own account or made on behalf of all his principals.

Section 9 of the CGST Act, 2017 provides that CGST is not leviable on five petroleum products i.e. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. As per section 2(47) of the CGST Act, 2017, exempt supply includes non-taxable supply. Thus, supply of high speed diesel in Delhi, being a non-taxable supply, is an exempt supply and is, therefore, includible while computing the aggregate turnover.

In the backdrop of the above-mentioned discussion, the aggregate turnover for the month of April, 20XX is computed as under:

S.	Particulars	Amount
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Paper 3 - Taxation

No.		(in ₹)
(i)	Supply of machine oils in Delhi	2,00,000
(ii)	Add: Supply of high speed diesel in Delhi	4,00,000
(iii)	Add: Supply made through Fortis Lubricants - an agent of Pure Oils in Delhi	-
(iv)	Add: Supply made by Pure Oils from its branch located in Punjab	1,80,000
	Aggregate Turnover	7,80,000

Since the aggregate turnover does not exceed ₹ 20 lakh (**as per amendment 40 Lakh**), Pure Oils is not liable to be registered.

If Pure Oils made supply of machine oils amounting to ₹ 2,50,000 from its branch in Himachal Pradesh in addition to the above supply, ~~then threshold limit of registration will be reduced to ₹ 10 lakh as Himachal Pradesh is one of the specified Special Category States.~~ **As per amendment the limit will be 40 Lakhs as mentioned below.**

Aggregate Turnover in that case would be ₹ 7,80,000 + ₹ 2,50,000 = ₹ 10,30,000. ~~So, if Pure Oils supplies machine oils amounting to ₹ 2,50,000 from its branch in Himachal Pradesh, then it is liable to be registered.~~ **Hence It will not be liable to get registered.**

As per amendment –

As per section 22 of the CGST Act, 2017 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

- ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.**
- ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.**
- ₹ 40 lakh for rest of India except persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.**

Question 27

M/s Siya Ram is a trader of decorative items in Hauz Khas, Delhi. His aggregate turnover exceeded ₹ 20 lakh in the month of October, 20XX. He applied for registration on GST portal, but missed to submit the details of his bank account. His tax consultant advised him that prior submission of bank details is mandatory to obtain registration. Examine whether the advice of Mr. Siya Ram's tax consultant is correct. (RTP Nov '19)

Answer 27

The advice of Mr. Siya Ram's consultant that prior submission of bank details is mandatory to obtain registration is no more valid in law.

A new rule 10A has been inserted in the CGST Rules, 2017 vide Notification No. 31/2019 CT dated 28.06.2019 which allows the registered person to furnish information with respect to details of bank account, or any other information, as may be required on the common portal in order to comply with any other provision, soon after obtaining certificate of registration and a GSTIN, but not later than 45 days from the date of grant of registration or the date on which the return required under section 39 is due to be furnished, whichever is earlier.

This relaxation is however not available for those who have been granted registration as TDS deductor/ TCS collector under rule 12 or who have obtained suo-motu registration under rule 16.

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Paper 3 - Taxation

Question 28

Examine whether the liability to register compulsorily under section 24 of the CGST Act, 2017 arises in each of the independent cases mentioned below:

- (1) **Heera, a supplier in Haryana, is exclusively engaged in supply of potatoes produced out of cultivation of his own land, within Haryana and also outside Haryana.**
- (2) **Aanya of Telangana is exclusively engaged in intra-State supply of toys. Its aggregate turnover in the current financial year is ₹ 22 lakh. (RTP Nov '21)**

Answer 28

- (1) Section 24 of the CGST Act, 2017 provides that persons making any inter -State taxable supply of goods are required to obtain registration compulsorily under GST laws irrespective of the quantum of aggregate turnover. However, as per section 23 of the CGST Act, 2017, an agriculturist, to the extent of supply of produce out of cultivation of land, is not liable to registration. Heera is exclusively engaged in cultivation and supply of potatoes. Thus, he is not liable to registration irrespective of the fact that he is engaged in making inter -State supply of goods. Further, Heera will not be liable to registration, in the given case, even if his turnover exceeds the threshold limit.
- (2) As per section 22 of the CGST Act, 2017 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-
 - (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
 - (b) ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
 - (c) ₹ 40 lakh for rest of India except persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.

Since Aanya is making taxable supplies from Telangana, she will not be eligible for higher threshold limit available in case of exclusive supply of goods. The applicable threshold limit for registration for Aanya in the given case is ₹ 20 lakh. Thus, she is liable to get registered under GST.

Question 29

Examine whether the supplier of goods is liable to get registered in the following independent cases:

- (i) **Rudra Builders of Rohini, Delhi is exclusively engaged in intra-State taxable supply of building bricks. It's aggregate turnover in the current financial year is ₹ 23 lakh.**
- (ii) **Heera of Himachal Pradesh is exclusively engaged in intra-State taxable supply of footwear. His turnover in the current financial year (FY) from Himachal Pradesh showroom is ₹ 32 lakh. He has another showroom in Nagaland with a turnover of ₹ 11 lakh in the current FY. (RTP Nov'22)**

Answer 29

As per section 22 of the CGST Act, 2017 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to get registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

- (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
- (b) ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.

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- (c) ₹ 40 lakh for rest of India except persons engaged in making supplies of fly ash bricks/blocks, building bricks, bricks of fossil meals, earthen/roofing tiles, ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.

In the light of the afore-mentioned provisions, the Answer to the independent cases is as under:

- (ii) The benefit of enhanced threshold limit of registration of ₹ 40 lakh is not applicable for Rudra brothers even though it is exclusively engaged in intra-State taxable supply of goods in Delhi as it is engaged in making supplies of building bricks. Thus, the applicable threshold limit for registration for Rudra Builders in the given case is ₹ 20 lakh. Thus, it is liable to get registered under GST as its turnover is more than the threshold limit.
- (iii) Heera could have been eligible for enhanced threshold limit of turnover for registration, i.e. ₹ 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Heera is engaged in supplying footwear from a Special Category State i.e. Nagaland, the threshold limit gets reduced to ₹ 10 lakh. Thus, Heera is liable to get registered under GST as his turnover exceeds ₹10 lakh. Further, he is required to obtain registration in both Himachal Pradesh and Nagaland as he is making taxable supplies from both the States.

Question 30

Briefly enumerate the contraventions which make a registered person liable to cancellation of registration, as prescribed under rule 21 of the CGST Rules, 2017. (RTP May '23)

Answer 30

Rule 21 of the CGST Rules, 2017 prescribes the contraventions which make a registered person liable to cancellation of registration. As per said rule, the registration granted to a person is liable to be cancelled, if the said person -

- does not conduct any business from the declared place of business.
- issues invoice/bill without supply of goods/services in violation of the provisions of this Act, or the rules made thereunder.
- violates the provisions of section 171 of the CGST Act. Section 171 contains provisions relating to anti-profiteering measure.
- violates the provision of rule 10A of the CGST Rules relating to furnishing of bank account details.
- avails input tax credit in violation of the provisions of section 16 of the CGST Act or the rules made thereunder.
- furnishes the details of outward supplies in Form GSTR-1 under section 37 of the CGST Act for one or more tax periods which is in excess of the outward supplies declared by him in his valid return under section 39 for the said tax periods.

being a registered person required to file return under section 39(1) of the CGST Act for each month or part thereof (i.e. monthly return filer), has not furnished returns for a continuous period of 6 months.

being a registered person required to file return under proviso to section 39(1) of the CGST Act for each quarter or part thereof (i.e. quarterly return filer), has not furnished returns for a continuous period of 2 tax periods.

Question 31

Under the provision of section 29(1) of CGST Act, 2017 read with rule 21A of CGST Rules, 2017 related to suspension of registration if the registered person has applied for cancellation of registration, what is the period and manner of suspension of registration on? (PYP 5 Marks, Jan'21)

Answer 31

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Where a registered person has applied for cancellation of registration, the registration shall be deemed to be suspended from:

- (a) the date of submission of the application or
- (b) the date from which the cancellation is sought, whichever is later, pending the completion of proceedings for cancellation of registration.

Such person shall not make any taxable supply during the period of suspension and shall not be required to furnish any return.

The expression "shall not make any taxable supply" mean that the registered person shall not issue a tax invoice and, accordingly, not charge tax on supplies made by him during the suspension period.

Question 32

BBD Pvt. Ltd. of Gujarat exclusively manufactures and sells product 'Z' which is exempt from GST vide notifications issued under relevant GST legislations. The company sells 'Z' only within Gujarat and is not registered under GST laws. The turnover of the company in the previous year 2018-19 was ` 50 lakh. The company expects the sales to grow by 10% in the current year 2019-20. However, effective 01.01.2020, exemption available on 'Z' was withdrawn by the Central Government and GST@ 5% was imposed thereon. The turnover of the company for the nine months ended on 31.12.2019 was ` 42 lakh.

BBD Pvt. Ltd. is of the opinion that it is not required to get registered under GST for current financial year 2019-20. Examine the above scenario and advise BBD Pvt. Ltd. whether it needs to get registered under GST or not. (PYP 4 Marks, Nov'20)

Answer 32

For a supplier exclusively engaged in intra-State supply of goods, the threshold limit of turnover to obtain registration in the State of Gujarat is ` 40 lakh. However, a person exclusively engaged in the business of supplying goods and/or services that are not liable to tax or are wholly exempt from tax is not liable to registration.

Therefore, since BBD Pvt. Ltd. was engaged exclusively in supplying exempted goods till 31.12.2019, it was not required to be registered till that day; though voluntary registration was allowed.

The position, however, will change from 01.01.2020 as the supply of goods become taxable from that day and the turnover of BBD Pvt. Ltd. is more than ` 40 lakh. Since the aggregate turnover limit of ` 40 lakh includes exempt turnover also, turnover of 'Z' till 31.12.2019 will be considered for determining the threshold limit even though the same was exempt from GST. Therefore, BBD Pvt. Ltd. needs to register within 30 days from 01.01.2020.

Question 33

State with brief reason, whether following suppliers of taxable goods are required to register under the GST Law:

- (iii) **Mr. Raghav is engaged in wholesale cum retail trading of medicines in the State of Assam. His aggregate turnover during the financial year is ` 9,00,000 which consists of ` 8,00,000 as Intra-State supply and ` 1,00,000 as Inter-State supply.**
- (iv) **Mr. S.N Gupta of Rajasthan is engaged in trading of taxable goods on his own account and also acting as an agent of Mr. Rishi of Delhi. His turnover in the financial year 2017-18 is of ` 12 lakhs on his own account and ` 9 lakhs on behalf of principal. Both turnovers are Intra -State supply. (PYP 4 Marks, May'19)**

Answer 33

- (i) Person making any inter-State taxable supply of goods is required to obtain registration compulsorily under GST laws irrespective of the quantum of aggregate

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turnover. Thus, in the given case Mr. Raghav is required to obtain registration compulsorily under GST laws even though his aggregate turnover does not exceed the threshold limit of ₹ 10 lakh [since Assam is a Special Category State] in the financial year.

- (ii) Persons who make taxable supply of goods on behalf of other taxable persons whether as an agent or otherwise are required to obtain registration compulsorily under GST laws irrespective of the quantum of aggregate turnover. Aggregate turnover includes all supplies made by the taxable person, whether on his own account or made on behalf of all his principals. Since Mr. S.N Gupta is also acting as an agent of Mr. Rishi of Delhi, he is required to obtain registration compulsorily under GST laws.

Question 34

State the persons who are not liable for registration as per provisions of Section 23 of Central Goods and Service Tax Act, 2017. (PYP 5 Marks Nov'18, MTP 5 Marks, April'19)

Answer 34

As per provisions of Section 23 of CGST Act, 2017, the persons who are not liable for registration are as under—

- (h) Person engaged exclusively in supplying goods/services/both that are wholly exempt from tax.
- (i) Person engaged exclusively in supplying goods/services/both that are not liable to tax.
- (j) Agriculturist to the extent of supply of produce out of cultivation of land.
- (k) Persons only engaged in making supplies of taxable goods or services or both liable to reverse charge.
- (l) Persons making inter-State supplies of taxable services up to an aggregate turnover of ₹ 20 lakh (₹ 10 lakh in case of special category States except Jammu and Kashmir).
- (m) Casual Taxable Persons making taxable supplies of specified handicraft goods up to an aggregate turnover of ₹ 20 lakh (₹ 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.
- (n) Persons making inter-State supplies of specified handicraft goods up to an aggregate turnover of ₹ 20 lakh (₹ 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.
- (o) Job workers making inter-State supply of services to a registered person up to an aggregate turnover of ₹ 20 lakh (₹ 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.
- (p) Persons making supplies of services through an electronic commerce operator (other than supplies specified under section 9(5) of the CGST Act) up to an aggregate turnover of ₹ 20 lakh (₹ 10 lakh in case of special category States except Jammu and Kashmir).

Question 35

Determine the effective date of registration in the following instances:

- (i) **The aggregate turnover of Madhu Ltd., engaged in taxable supply of services in the state of Punjab, exceeded ₹ 20 lakh on 25th August, 2017. It applies for registration on 19th September, 2017 and is granted registration certificate on 29th September, 2017.**
- (ii) **What will be your answer, if in the above scenario, Madhu Ltd. submits the application for registration on 27th September, 2017 and is granted registration on 5th October, 2017? (4 Marks, May'18, MTP 4 Marks, Oct'18)**

Answer 35

A supplier whose aggregate turnover in a financial year exceeds ₹ 20 lakh in a State/UT

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[` 10 lakh in Special Category States except Jammu and Kashmir] is liable to apply for registration within 30 days from the date of becoming liable to registration (i.e., the date of crossing the threshold limit of ` 20 lakh/` 10 lakh).

Where the application is submitted within the said period, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

In the given case, the applicable turnover limit for registration will be ` 20 lakh as Punjab is not a Special Category State.

- (i) Since Madhu Ltd. applied for registration within 30 days of becoming liable to registration, the effective date of registration is 25th August, 2017.
- (ii) In this case, since Madhu Ltd. applies for registration after the expiry of 30 days from the date of becoming liable to registration, the effective date of registration is 5th October, 2017.

Question 36

Mr. Q, a casual taxable person of Gujarat state is a trader of taxable notified handicraft goods. It makes supplies to the states of Maharashtra, Rajasthan and Andhra Pradesh. Turnover for October, 2021 is ` 18 Lakh.

- (i) **Explain the provisions of registration for casual taxable person under GST. Examine whether Mr. Q is liable for registration or not?**
- (ii) **What will be the answer if Mr. Q makes trading in taxable notified products instead of taxable notified handicraft goods which involves 75% making on machine and 25% by hand? (PYP 5 Marks Dec '21)**

Answer 36

- (i) A casual taxable person is required to obtain compulsory registration under GST irrespective of the quantum of its aggregate turnover.

However, a threshold limit of ` 20 lakh (` 10 lakh in case of specified Special Category States) is available for registration to a casual taxable person who:

- (i) is making inter-State taxable supplies of notified handicraft goods and notified hand-made goods,
- (ii) is availing the benefit of exemption from registration available to inter-State supply of above-mentioned goods upto the aggregate turnover of ` 20 lakh (` 10 lakh in case of specified Special Category States), and
- (iii) has obtained a PAN and
- (iv) has generated an e-way bill.

In the given case, since Mr. Q is engaged in supplying notified handicraft goods and its aggregate turnover does not exceed ` 20 lakh, he will not be liable to registration provided he fulfills other conditions specified herein.

- (ii) In case Mr. Q is engaged in trading of notified products which are predominantly made by machine, he will not be eligible for the exemption from registration under aforesaid provisions and needs to take compulsory (mandatory) registration. It has been assumed that Mr. Q has started supply of goods in October 2021 itself.

Question 37

State any five circumstances under which the proper officer can cancel the registration on his own under the CGST Act, 2017. (PYP 5 Marks May'22)

Answer 37

Answer to Alternative

Circumstances under which the proper officer can cancel the registration on his own under the CGST Act, 2017:

- (i) A registered person has contravened any of the following prescribed provisions of the GST law:
 - (a) he does not conduct any business from the declared place of business.

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- (b) he issues invoice/bill without supply of goods/services in violation of the provisions of GST law.
- (c) he violates the provisions of anti-profiteering.
- (d) he violates the provisions relating to furnishing of bank details.
- (e) he avails ITC in violation of the provisions of the GST law.
- (f) furnishes the details of outward supplies in GSTR-1 for one or more tax periods which is in excess of the outward supplies declared by him in his valid return for the said tax periods.
- (g) he violates the provision relating to restrictions on use of amount available in electronic credit ledger
- (ii) A person paying tax under composition levy has not furnished returns for 3 consecutive tax periods.
- (iii) A registered person paying tax under regular scheme has not furnished returns for continuous period of 6 months.
- (iv) Voluntarily registered person has not commenced the business within 6 months from the date of registration.
- (v) Registration was obtained by means of fraud, wilful misstatement or suppression of facts.

Section - B

Question 1

Determine the effective date of registration in following cases:

- (a) **The aggregate turnover of Dhampur Footwear Industries of Delhi has exceeded the applicable threshold limit of ₹ 40 lakh on 1st September. It submits the application for registration on 20th September. Registration certificate is granted to it on 25th September.**
- (b) **Mehta Teleservices is an architect in Lucknow. Its aggregate turnover exceeds ₹ 20 lakh on 25th October. It submits the application for registration on 27th November. Registration certificate is granted to it on 5th December. (Old & New)**

Answer 1

Every supplier becomes liable to registration if his turnover exceeds the applicable threshold limit [₹ 40 lakh in this case] in a financial year [Section 22 read with *Notification No. 10/2019 CT dated 07.03.2019*]. Since in the given case, the turnover of Dhampur Industries exceeded ₹ 40 lakh on 1st September, it becomes liable to registration on said date. Further, since the application for registration has been submitted within 30 days from such date, the registration shall be effective from the date on which the person becomes liable to registration [Section 25 read with rule 10]. Therefore, the effective date of registration is 1st September. Since in the given case, the turnover of Mehta Teleservices exceeds the applicable threshold limit [₹ 20 lakh] on 25th October, it becomes liable to registration on said date. Further, since the application for registration has been submitted after 30 days from the date such person becomes liable to registration, the registration shall be effective from the date of grant of registration. Therefore, the effective date of registration is 5th December.

Question 2

In order to be eligible for grant of registration, a person must have a Permanent Account Number issued under the Income- tax Act, 1961. State one exception to it. (Old & New)

Answer 2

A Permanent Account Number is mandatory to be eligible for grant of registration. One exception to this is a non-resident taxable person. A non- resident taxable person may be granted registration on the basis of other prescribed documents instead of PAN. He has to submit a self-attested copy of his valid passport along with the application signed by

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his authorized signatory who is an Indian Resident having valid PAN and application will be submitted in a different prescribed form [Section 25(6) & (7)].

Question 3

State which of the following suppliers are liable to be registered:

- Agent supplying taxable goods on behalf of some other taxable person and its aggregate turnover does not exceed the applicable threshold limit during the financial year.**
- An agriculturist who is only engaged in supply of produce out of cultivation of land and its aggregate turnover exceeds the applicable threshold limit during the financial year. (Old New)**

Answer 3

- Section 22 stipulates that every supplier becomes liable to registration if his turnover exceeds the applicable threshold limit in a financial year. However, as per section 24, a person making taxable supply of goods/services or both on behalf of other taxable persons whether as an agent or not is liable to be compulsorily registered even if its aggregate turnover does not exceed the applicable threshold limit during the financial year.
- As per section 23, an agriculturist who is only engaged in supply of produce out of cultivation of land is not required to obtain registration even if his turnover exceeded the applicable threshold limit for registration.

Question 4

Pure Oils, Delhi has supplied machine oil and high-speed diesel in the month of April as per the details given in table below. Pure Oils is not yet registered

S.No.	Particulars	Amount (₹)*
(i)	Supply of machine oil in Delhi	15,00,000
(ii)	Supply of high speed diesel in Delhi	10,00,000
(iii)	Supply of machine oil made in Punjab by PureOils from its branch located in Punjab	10,00,000

***excluding GST Determine whether Pure Oils is liable for registration. (Old & New)**

Answer 4

As per section 22 read with *Notification No. 10/2019 CT dated 07.03.2019*, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

- ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
- ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
- ₹ 40 lakh for rest of India except persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.

The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-

- ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
- ₹ 20 lakh for the rest of India.

As per section 2(6), aggregate turnover includes the aggregate value of:

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- (i) all taxable supplies,
- (ii) all exempt supplies,
- (iii) exports of goods and/or services and
- (iv) all inter-State supplies of persons having the same PAN.

The above is computed on all India basis. Further, the aggregate turnover excludes central tax, State tax, Union territory tax, integrated tax and cess. Moreover, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of 'aggregate turnover'.

Section 9(2) provides that CGST is not leviable on five petroleum products i.e. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. As per section 2(47), exempt supply includes non-taxable supply. Thus, supply of high speed diesel in Delhi, being a non-taxable supply, is an exempt supply and is, therefore, includible while computing the aggregate turnover. In the backdrop of the above-mentioned discussion, the aggregate turnover of Pure Oils for the month of April is computed as under:

S. No.	Particulars	Amount (in ₹)
(i)	Supply of machine oils in Delhi	15,00,000
(ii)	Add: Supply of highspeed diesel in Delhi	10,00,000
(iii)	Add: Supply of machine oil made by Pure Oils from its branch located in Punjab	<u>10,00,000</u>
	Aggregate Turnover	35,00,000

Pure Oils is making exclusive supply of goods and hence the threshold limit for registration would be ₹ 40,00,000. Since the aggregate turnover does not exceed ₹ 40,00,000, Pure Oils is not liable to be registered.

Question 5

What will be your answer if in question 4 above, in S.No. (ii), Pure Oils supplies the high speed diesel in Delhi in the capacity of an agent of Mixed Oils Ltd., where invoices to customers are issued in name of Pure Oils? (Old & New)

Answer 5

In case Pure Oils makes the supply in capacity of an agent of Mixed Oils Ltd.: Section 24 provides that an agent who is engaged in making taxable supplying of goods on behalf of other taxable persons, shall be liable to obtain registration irrespective of the threshold turnover limit. However, in the present case, if Pure Oils supply high speed diesel on behalf of Mixed Oil Ltd. in Delhi as its agent, it shall still not be liable to obtain registration in Delhi since section 24 comes into play only when agent is making taxable supply of goods on behalf of principal whereas in the given case, Pure Oils is supplying non-taxable goods on behalf of Mixed Oils Ltd.

Question 6

Examine whether the supplier of goods is liable to get registered in the following independent cases:-

- (i) **Raghav of Assam is exclusively engaged in intra-State taxable supply of readymade garments. His turnover in the current financial year (FY) from Assam showroom is ₹ 33 lakh. He has another showroom in Tripura with a turnover of ₹ 11 lakh in the current FY.**
- (ii) **Pulkit of Panjim, Goa is exclusively engaged in intra-State taxable supply of shoes. His aggregate turnover in the current financial year is ₹ 22 lakh.**
- (iii) **Harshit of Himachal Pradesh is exclusively engaged in intra-State supply of pan masala. His aggregate turnover in the current financial year is ₹ 24 lakh. (Old & New)**

Answer 6

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As per section 22 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

- (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
- (b) ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
- (c) ₹ 40 lakh for rest of India except persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes. In the light of the aforementioned provisions, the answer to the independent cases is as under:-
 - (i) Raghav is eligible for higher threshold limit of turnover for registration, i.e. ₹ 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Raghav is engaged in supplying readymade garments from a Special Category State i.e. Tripura, the threshold limit gets reduced to ₹ 10 lakh. Thus, Raghav is liable to get registered under GST as his turnover exceeds ₹ 10 lakh. Further, he is required to obtain registration in both Assam and Tripura as he is making taxable supplies from both the States.
 - (ii) The applicable threshold limit for registration for Pulkit in the given case is ₹ 40 lakh as he is exclusively engaged in intra-State taxable supply of goods in Goa. Thus, he is not liable to get registered under GST as his turnover is less than the threshold limit.
 - (iii) Harshit being exclusively engaged in supply of pan masala is not eligible for higher threshold limit of ₹ 40 lakh. The applicable threshold limit for registration in this case is ₹ 20 lakh. Thus, Harshit is liable to get registered under GST.

Question 7

Examine whether the supplier is liable to get registered in the following independent cases:-

- (i) **Ankit of Assam is exclusively engaged in intra-State supply of taxable services. His aggregate turnover in the current financial year is ₹ 25 lakh.**
- (ii) **Sanchit of Assam is engaged in intra-State supply of both taxable goods and services. His aggregate turnover in the current financial year is ₹ 30 lakh. (Old & New)**

Answer 7

As per section 22 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-

- (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
- (b) ₹ 20 lakh for the rest of India.
 - (i) Though Ankit is dealing in Assam, he is not entitled for higher threshold limit for registration as the same is applicable only in case of exclusively supply of goods and he is exclusively engaged in providing services. Thus, the applicable threshold limit for registration in this case is ₹ 20 lakh and hence, Ankit is liable to get registered under GST.
 - (ii) Since Sanchit is engaged in supply of both taxable goods and services, the applicable threshold limit for registration in his case is ₹ 20 lakh. Thus, Sanchit

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is liable to get registered under GST as his turnover is more than the threshold limit.

Question 8

What are the advantages of taking registration in GST? (Old & New)

Answer 8

Registration will confer following advantages to the business:

- Legally recognized as supplier of goods or services.
- Proper accounting of taxes paid on the input goods or services which can be utilized for payment of GST due on supply of goods or services or both by the business.
- Legally authorized to collect tax from his purchasers and pass on the credit of the taxes paid on the goods or services supplied to purchasers or recipients.
- Become eligible to avail various other benefits and privileges rendered under the GST laws.

Question 9

Can a person without GST registration collect GST and claim ITC? (Old & New)

Answer 9

No, a person without GST registration can neither collect GST from his customers nor can claim any input tax credit of GST paid by him.

Question 10

If a person is making taxable supplies from different States, with the same PAN number, can he operate with a single registration? (Old & New)

Answer 10

No. Every person who is liable to take a registration will have to get registered separately for each of the States where he has a business operation (and making taxable supplies) provided his aggregate turnover exceeds applicable threshold limit.

Question 11

Can a person having multiple places of business in a State obtain separate registrations for each place of business? (Old & New)

Answer 11

Yes. In terms of the proviso to sub-section (2) of section 25, a person having multiple places of business in a State may obtain a separate registration for each place of business, subject to such conditions as may be prescribed.

Question 12

Is there a provision for a person to get himself voluntarily registered though he may not be liable to pay GST? (Old & New)

Answer 12

Yes. In terms of sub-section (3) of section 25, a person, though not liable to be registered under sections 22 or 24 may get himself registered voluntarily, and all provisions of this Act, as are applicable to a registered taxable person, shall apply to such person.

Question 13

Can the Department, through the proper officer, suo-moto proceed to register a person under GST? (Old & New)

Answer 13

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

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for the time being in force, proceed to register such person in the manner as is prescribed in the CGST Rules.

Question 14

Whether the registration granted to any person is permanent? (Old & New)

Answer 14

Yes, the registration certificate once granted is permanent unless surrendered, cancelled, suspended or revoked.

Question 15

Is it necessary for the UN bodies to get registration under GST? (Old & New)

Answer 15

In terms of section 25(9), all notified UN bodies, Consulate or Embassy of foreign countries and any other class of persons so notified would be required to obtain a unique identification number (UIN) from the GST portal. The structure of the said ID would be uniform across the States in conformity with GSTIN structure and the same will be common for the Centre and the States. This UIN will be needed for claiming refund of taxes paid on notified supplies of goods and services received by them, and for any other purpose as may be notified.

Question 16

What is the responsibility of the taxable person making supplies to UN bodies? (Old & New)

Answer 16

The taxable supplier making supplies to UN bodies is expected to mention the UIN on the invoices and treat such supplies as supplies to another registered person (B2B).

Question 17

What is the validity period of the registration certificate issued to a casual taxable person and non-resident taxable person? (Old & New)

Answer 17

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.

Question 18

What happens when the registration is obtained by means of willful mis-statement, fraud or suppression of facts? (Old & New)

Answer 18

In such cases, the registration may be cancelled with retrospective effect by the proper officer [Section 29(2)(e)].

Question 19

Is there an option to take centralized registration for services under GST Law? (Old & New)

Answer 19

No, the tax payer has to take separate registration in every State from where he makes taxable supply of services.

Question 20

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What could be the liabilities (in so far as registration is concerned) on transfer of a business? (Old & New)

Answer 20

The transferee or the successor shall be liable to be registered with effect from such transfer or succession and he will have to obtain a fresh registration with effect from the date of such transfer or succession [Section 22(3)].

Question 21

At the time of registration, will the assessee have to declare all his places of business? (Old & New)

Answer 21

Yes. The principal place of business and place of business have been separately defined under section 2(89) & 2(85) respectively. The taxpayer will have to declare the principal place of business as well as the details of additional places of business in the registration form.

Question 22

Does cancellation of registration impose any tax obligations on the person whose registration is so cancelled? (Old & New)

Answer 22

Yes, as per section 29(5), every registered taxable person whose registration is cancelled shall pay an amount, by way of debit in the electronic cash ledger, equivalent to the credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock or capital goods or plant and machinery on the day immediately preceding the date of such cancellation or the output tax payable on such goods, whichever is higher.

Question 23(Illustration)

Examine, with reason, whether registration is required, under CGST Act, in the following independent cases:

- (i) **Aadhav Computers of Gujarat is providing computer maintenance service. Aggregate turnover of Aadhav Computers is ₹ 15 lakh which comprises both inter-State and intra-State supply.**
- (ii) **Soft Wings of West Bengal, exclusively trading in garments, supplies its taxable goods in various States of India from its outlet in West Bengal. Aggregate turnover of Soft Wings is ₹ 35 lakh. (Old & New)**

Answer 23

- (i) Registration is compulsory for suppliers engaged in inter-State supply. However, as per Notification No. 10/2017 IT dated 13.10.2017, threshold exemption of ₹ 20 lakh [₹ 10 lakh in case of Special Category States of Mizoram, Tripura, Manipur and Nagaland] is available in case of inter-State supply of taxable services. Therefore, Aadhav Computers (aggregate turnover ₹ 15 lakh) is not required to obtain registration even though it is engaged in inter-State supply of taxable services.
- (ii) The threshold limit for registration in the State of West Bengal for the persons engaged exclusively in supply of goods, is ₹ 40 lakh. However, registration is compulsory if the supplier is engaged in inter-State supply of goods irrespective of the quantum of aggregate turnover. The threshold exemption is not available in case of inter-State supply of taxable goods. Thus, Soft Wings is required to obtain registration.

Question 24(Illustration)

Examine whether the liability to register compulsorily under section 24 arises in each of the independent cases mentioned below:

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- (1) **Meenu, a supplier in Maharashtra, is exclusively engaged in supply of potatoes produced out of cultivation of her own land, within Maharashtra and also outside Maharashtra.**
- (2) **Jinu Oils, Gujarat, is engaged in supplying machine oil as well as petrol. Further, it provides services of refining of oil to customers. Total turnover of supply of machine oil is ₹ 10 lakh, supply of petrol is ₹ 5 lakh and supply of services is ₹ 6 lakh.**
- (3) **Tilu is working as an agent, he is supplying taxable goods as an agent of Tiku (who is registered taxable person) and its aggregate turnover does not exceed ₹ 20 lakh during the financial year. Invoices to customers are issued in name of Tilu. (Old & New)**

Answer 24

- (1) Section 24 provides that persons making any inter-State taxable supply of goods are required to obtain registration compulsorily under GST laws irrespective of the quantum of aggregate turnover.
However, as per section 23, an agriculturist, to the extent of supply of produce out of cultivation of land, is not liable to registration. Meenu is exclusively engaged in cultivation and supply of potatoes. Thus, she is not liable to registration irrespective of the fact that she is engaged in making inter-State supply of goods. Further, Meenu will not be liable to registration, in the given case, even if her turnover exceeds the threshold limit.
- (2) Section 24 specifies the categories of persons who are required to be mandatorily registered under GST irrespective of the quantum of their aggregate turnover. In the given case, Jinu Oils does not fall in any of the specified categories. Therefore, it is not required to obtain registration compulsorily under GST. However, as per section 22 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making supply of both goods and services is ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland and ₹ 20 lakh for the rest of India. Thus, the applicable threshold limit for the State of Gujarat is ₹ 20 lakh for supply of both goods and services. Further, aggregate turnover includes exempted turnover of goods or services. Accordingly, Jinu Oils is liable obtain registration since its aggregate turnover [₹ 21 lakh (including turnover of exempt supply of petrol)] exceeds the threshold limit of ₹ 20 lakh.
- (3) Section 24 provides that persons who make taxable supply of goods and/or services on behalf of other taxable persons whether as an agent or otherwise are required to obtain registration compulsorily under GST laws irrespective of the quantum of aggregate turnover. Therefore, Tilu will be mandatorily required to obtain registration.

Question 25 (Illustration)

Determine the effective date of registration under CGST Act in respect of the following cases with proper explanation:

- (iii) **The aggregate turnover of Varun Industries of Mumbai has exceeded ₹ 40 lakh on 1st August. Varun Industries manufactures LED TVs in Mumbai and sells them in Pune. It submits the application for registration on 20th August. Registration certificate granted on 25th August.**
- (iv) **Sweta InfoTech Services is the provider of internet services in Pune. Its aggregate turnover exceeds ₹ 20 lakh on 25th September. It submits the application for registration on 27th October. Registration certificate is granted on 5th November. (Old & New)**

Answer 25

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As per section 22 read with *Notification No. 10/2019 CT dated 07.03.2019*, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

- (d) ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.
- (e) ₹ 20 lakh for the States of States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
- (f) ₹ 40 lakh for rest of India. However, the higher threshold limit of ₹ 40 lakh is not available to persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes. The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-
 - (c) ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.
 - (d) ₹ 20 lakh for the rest of India.

As per rule 10, where a person submits the application for registration within 30 days of becoming liable for registration, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration. In the light of the above provisions, in the given cases, the applicable turnover limit for registration will be ₹ 40 lakh and ₹ 20 lakh respectively in case (i) and (ii).

- (iii) Since Varun Industries applied for registration within 30 days of becoming liable to registration, the effective date of registration is 1st August.
- (iv) Since Sweta InfoTech Services applied for registration after the expiry of 30 days from the date of becoming liable to registration, the effective date of registration is 5th November.

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Chapter 10

Tax Invoice; Credit and Debit Notes; E-Way Bill

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q4				Q3					
RTP			Q2		Q1			Q5				
Q & A												
MTP	Q15	Q8,Q9, Q14	Q7		Q10,Q 13		Q11	Q12		Q16,Q 17	Q6	Q25
PYP	Q23		Q24			Q3		Q2, Q21	Q22	Q1		
RTP		Q26			Q18		Q5	Q19		Q4		Q20

Section – A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. During the month of May, Z Ltd. sold goods to Y Ltd. for ₹ 2,55,000 and charged GST @ 18%. However, owing to some defect in the goods, Y Ltd. returned the goods by issuing debit note of ₹ 40,000 in the same month. Z Ltd. records the return of goods by issuing a credit note of ₹ 40,000 plus GST in the same month. In this situation, GST liability of Z Ltd. for the month of May will be-

- (a) ₹ 45,900
 (b) ₹ 38,700
 (c) ₹ 53,100
 (d) ₹ 40,000 (RTP Nov '20)

Ans: (b)

2. Kidzee Ltd., a wholesaler of toys registered in Chandigarh, is renowned in the local market for the varieties of toys and their reasonable prices. Kidzee Ltd. makes supply of 100 pieces of baby's learning laptops and chat learning phones to Nancy General Store on 25th September, 20XX by issuing a tax invoice amounting to ₹ 1,00,000. However, the said toys were returned by Nancy General Store on 30th September, 20XX. Which document Kidzee Ltd. is required to issue in such a case?

- (a) Debit Note
 (b) Refund voucher
 (c) Credit note
 (d) Payment voucher (RTP May '19)

Ans: (c)

3. Lovely & Co., a registered person, supplies taxable goods to unregistered persons. It need not issue tax invoice for the goods supplied on 16th April, if the value of the goods is and the recipient does not require such invoice.

- (a) ₹ 1,200
 (b) ₹ 600
 (c) ₹ 150

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(d) ₹ 200 (MTP 2 Marks, March'21)(MTP 1 Mark Oct '23)

Ans: (c)

4. Invoice shall be prepared in (I) _____ in case of taxable supply of goods and in (ii) _____ in case of taxable supply of services.

- (a) (I) Triplicate, (ii) Duplicate
 (b) (I) Duplicate, (ii) Triplicate
 (c) (I) Duplicate, (ii) Duplicate
 (d) None of the above (MTP 1 Mark, April'19)

Ans: (a)

5. Which of the following statements is/are incorrect under GST law:-

- (i) If the supplier has erroneously declared a value which is more than the actual value of goods or services provided, then he can issue credit note for the same.
 (ii) If the supplier declared some special discount which is offered after the supply is over, then he cannot issue credit note under GST law for the discount offer.
 (iii) If quantity received by the recipient is more than what has been declared in the tax invoice, then supplier can issue debit note for the same.
 (iv) There is no time limit to declare the details of debit note in the return.
 (a) (i),(ii) and (iv)
 (b) (i) and (iv)
 (c) (iv)
 (d) (i) and (iii) (RTP Nov '21)

Ans: (c)**Question & Answers****Question 1**

List any three situations that warrant issue of credit note. Briefly explain the time line to declare such credit note in the GST return. (PYP 5 Marks Nov '22)

Answer 1

Situations that warrant the issue of credit note are as follows:

- The supplier has erroneously declared a value which is more than the actual value of the goods or services provided.
- The supplier has erroneously declared a higher tax rate than what is applicable for the kind of the goods or services or both supplied.
- The quantity received by the recipient is less than what has been declared in the tax invoice.
- The quality of the goods or services or both supplied is not to the satisfaction of the recipient thereby necessitating a partial or total reimbursement on the invoice value.

The details of credit note are declared in the GST return for the month during which such credit note has been issued but not later than:

- (i) September following the end of the financial year in which such supply was made, or
 (ii) the date of furnishing of the relevant annual return, whichever is earlier.

Question 2

- (iii) What is 'e-invoicing'?
 (iv) What is the threshold limit for mandatory issuance of E-invoice for all registered businesses?
 (v) A consignor hands over his goods for transportation on Friday to the transporter. However, assigned transporter starts the movement of goods from consigner's warehouse to its depot located at distance of 600 Km. on

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Monday.

When will the e-way bill be generated and for how many days it will be valid? (5 Marks Dec '21)

Answer 2

- (i) E-invoicing is reporting of business to business (B2B) invoices to GST system for certain notified category of taxpayers.
- (ii) The threshold limit for mandatory issuance of e-invoice for all registered businesses is ~~₹50 crores~~.

With effect from 01.10.2022, such limit has been reduced to ₹ 10 crore. Thus, e-invoicing has been made mandatory for all registered businesses with an aggregate turnover in any preceding financial year from 2017-18 onwards greater than ₹ 10 crore.

- (iii) E-way bill will be generated before commencement of movement of goods by transporter on Monday.

The validity period of the e-way bill is one day from relevant date upto 200 km and one additional day for every 200 km or part thereof thereafter.

Thus, validity period in the given case, is 3 days

It has been assumed that goods transported are not over Dimensional cargo

Question 3

ABC Cinemas, a registered person engaged in making supply of services by way of admission to exhibition of cinematograph films in multiplex screens was issuing consolidated tax invoice for supplies at the close of each day in terms of section 31(3)(b) of CGST Act, 2017 read with fourth proviso to rule 46 of CGST Rules, 2017.

During the month of October, 2019, the Department raised objection for this practice and asked to issue separate tax invoices for each ticket.

Advise ABC Cinemas for the procedure to be followed in the light of recent notification. (PYP 4 Marks, Jan'21)

Answer 3

The procedure to be followed by ABC Cinemas, a registered person engaged in making supply of services by way of admission to exhibition of cinematograph films in multiplex screens, is as under:

The option to issue consolidated tax invoice is not available to a supplier engaged in making supply of services by way of admission to exhibition of cinematograph films in multiplex screens. Thus, ABC Cinemas cannot issue consolidated tax invoice for supplies made by it at the close of each day. ABC Cinemas is required to issue an electronic ticket.

The said electronic ticket shall be deemed to be a tax invoice, even if such ticket does not contain the details of the recipient of service but contains the other information as prescribed to be mentioned.

Question 4

- (a) **Fashion Queen Ltd., registered under GST and dealing in baby products has an aggregate turnover of ₹ 40 crore in the preceding financial year. The tax consultant of Fashion Queen Ltd. advised it to issue e-invoices mandatorily. However, Fashion Queen Ltd. is of the view that since it's aggregate turnover is less than the threshold limit applicable for e-invoicing, it is not required to issue e-invoices. You are required to comment upon the validity of the advice given by Tax consultant.(Nov'22)**
- (b) **Ministry of Communications and Information Technology, a Government Department registered under GST has an aggregate turnover of ₹ 52 crore in the preceding financial year. You are required to comment whether Ministry of Communications and Information Technology is required to issue e-invoices**

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in the current financial year? (RTP Nov'22)

Answer 4

- (a) With effect from 01.04.2022, e-invoicing has been made mandatory for all registered businesses (except specified class of persons) with an aggregate turnover in any preceding financial year from 2017-18 onwards greater than ~~₹ 20 crore~~, in respect of B2B supplies (supply of goods or services or both to a registered person) or for exports.

With effect from 01.10.2022, such limit has been reduced to ` 10 crore. Thus, e-invoicing has been made mandatory for all registered businesses with an aggregate turnover in any preceding financial year from 2017-18 onwards greater than ` 10 crore.

Thus, the advice given by tax consultant of Fashion Queen Ltd. for issuance of e-invoices mandatorily in the current financial year is valid in law as the aggregate turnover of Fashion Queen Ltd. has exceeded the threshold limit i.e. ~~₹ 20 crore~~ **Rs 10 crore** in the preceding financial year.

- (b) Following entities are exempt from the mandatory requirement of e-invoicing:

- Special Economic Zone units
 - Insurer or banking company or financial institution including NBFC
 - GTA supplying services in relation to transportation of goods by road in a goods carriage
 - Supplier of passenger transportation service
 - Person supplying services by way of admission to exhibition of cinematograph films in multiplex screens
 - Government Department and a local authority
- Thus, above mentioned entities are not required to issue e-invoices even if their turnover exceeds ~~₹ 20 crore~~ **Rs 10 crore** in the preceding financial year from 2017-18 onwards.

Thus, Ministry of Communications and Information Technology, being a Government Department is not required to issue e-invoices in the current financial year even if it's aggregate turnover has exceeded ~~₹ 20 crore~~ **Rs 10 crore**.

Question 5

Bali Limited, a registered taxpayer, provides security services to registered persons from Mumbai office and Delhi office. The aggregate turnover of Mumbai office and Delhi office in the preceding financial year is ₹ 300 crore and ₹ 250 crore respectively. For the month of November in the current financial year, Bali Limited prepares duplicate invoices and does not issue e-invoice as it is of the view that it's aggregate turnover does not cross the threshold limit to make it liable for issuing e- invoices.

Briefly explain whether the view taken by Bali Limited is correct in law? Also explain the advantages of e-invoicing, if any. (RTP May '21)

Answer 5

The view taken by Bali Limited is not correct in law.

~~All notified registered businesses (except specified class of persons) with an aggregate turnover (based on PAN) in the preceding financial year greater than ₹ 500 crore are required to issue e-invoices.~~

With effect from 01.10.2022, such limit has been reduced to ` 10 crore. Thus, e-invoicing has been made mandatory for all registered businesses with an aggregate turnover in any preceding financial year from 2017-18 onwards greater than ` 10 crore.

The eligibility is based on aggregate annual turnover on the common PAN. Thus, the aggregate total turnover of Bali Limited is more than ~~₹ 500 crores~~ **Rs 10 crores** (considering both the GSTINs) and is required to issue e-invoices.

Further, where e-invoicing is applicable, there is no need of issuing invoice copies in triplicate/duplicate.

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E-invoice has many advantages for businesses, which have been given as under:-

- (i) Auto-reporting of invoices into GST return and auto-generation of e-way bill (wherever required). Under e-invoicing, business has to report the B2B invoice data only once in the e-invoice form and the same is reported in multiple forms (GSTR-1, e-way bill etc.). E-way bill can be auto-generated using e-invoice data. GSTR-1 can also be auto-populated with the e-invoice data. It will become part of the business process of the taxpayer.
- (ii) Accuracy/Reconciliation. Since same data is reported to tax department as well as to the buyer to prepare his inward supplies (purchase) register, transcription errors are reduced. On receipt of information through GST System, buyer can do reconciliation with his Purchase Order.
- (iii) Early payment. E-invoicing facilitates standardization and inter-operability leading to reduction of disputes among transacting parties and thus, improving payment cycles.
- (iv) Cost reduction. E-invoicing helps in reducing processing costs and thus, leads to improvement of overall business efficiency.
- (v) Reduction of tax evasion. Since a complete trail of B2B invoices is available with the Department, it will enable the system-level matching of input tax credit and output tax thereby reducing the tax evasion.
- (vi) Elimination of fake invoices. E-invoicing eliminates the fake invoices. Claiming fictitious input tax credit (ITC) by raising fake invoices is also one of the biggest challenges currently faced by tax-authorities. The e-invoice system helps to curb the actions of unscrupulous taxpayers and reduce the number of fraud cases as the tax authorities have access to data in real-time.
- (vii) Paper Elimination. E-invoicing helps in paper elimination and thereby it is eco-friendly.

Question 6

Briefly discuss the following with reference to GST law:

- (i) **Revised Tax Invoice**
- (ii) **Bill of Supply (MTP 4 Mark April '23)**

Answer 6

- (i) A registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him may, issue a revised tax invoice against the invoices already issued during said period, within 1 month from the date of issuance of certificate of registration in prescribed manner.
- (ii) A registered person supplying exempted goods and/or services or paying tax under composition levy, shall issue in prescribed manner, a bill of supply instead of a tax invoice, containing prescribed particulars.

Question 7

Draupad Fabrics has opted for composition levy scheme in the current financial year. It has approached you for advice whether it is mandatory for it to issue a tax invoice. You are required to advise him regarding same. (MTP 3 Marks, March'19)

Answer 7

A registered person paying tax under the provisions of section 10 [composition levy] shall issue, instead of a tax invoice, a bill of supply containing such particulars and in such manner as may be prescribed. Therefore, in the given case, Draupad Fabrics cannot issue tax invoice. Instead, it shall issue a Bill of Supply.

Question 8

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

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- (1) **It is mandatory to issue a tax invoice in case a registered person has opted for composition levy scheme.**
- (2) **A composition tax payer, who has not rendered any taxable supply during a quarter, is not required to file any return. (MTP 4 Marks March 18)**

Answer 8

1. The given statement is false. A registered person paying tax under the provisions of section 10 [composition levy] is required to issue, instead of a tax invoice, a bill of supply containing the specified particulars in the prescribed manner [Section 31(3)(c) read with rule 49 of the CGST Rules].
2. He given statement is false. Composition tax payer is required to furnish return under section 39 for every quarter even if no supplies have been effected during such period. In other words, filing of Nil return is also mandatory

Question 9

Determine with reason whether the following statements are true or false:

- (i) **A registered person shall issue separate invoices for taxable and exempted goods when supplying both taxable as well as exempted goods to an unregistered person.**
- (ii) **A Non-banking financial company can issue a consolidated tax invoice at the end of every month for the supply made during that month. (MTP 4 Marks, Oct'18)**

Answer 9

- (i) The given statement is false.
Where a registered person is supplying taxable as well as exempted goods or services or both to an unregistered person, a single "invoice-cum-bill of supply" may be issued for all such supplies.
- (ii) The said statement is true.
A non-banking financial company is allowed to issue a consolidated tax invoice or any other document in lieu thereof for the supply of services made during a month at the end of the month.

Question 10

List out the situations in which a Credit note/Debit note may be issued under the CGST Act, 2017. (MTP 5 Marks, Oct'20)

Answer 10

Credit note is required to be issued by the Supplier: -

- (i) If taxable value charged in the tax invoice is found to exceed the taxable value in respect of supply of goods and/or services, or
- (ii) If tax charged in the tax invoice is found to exceed the tax payable in respect of supply of goods and/or services, or
- (iii) if goods supplied are returned by the recipient, or
- (iv) if goods and/or services supplied are found to be deficient. Debit note is required to be issued by the Supplier: -
 - (i) if taxable value charged in the tax invoice is found to be less than the taxable value in respect of supply of goods and/or services or
 - (ii) if tax charged in the tax invoice is found to be less than the tax payable in respect of supply of goods and/or services.

Question 11

Narayan Singh, a registered supplier, has received advance payment with respect to services to be supplied to Shelly. His accountant asked him to issue the receipt voucher with respect to such services to be supplied. However, he is apprehensive as to what would happen in case a receipt voucher is issued, but subsequently no services are supplied. You are required to advise Narayan Singh

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regarding the same. (MTP 4 Marks, March'21 , March '23 ,)

Answer 11

Narayan Singh is required to issue a receipt voucher at the time of receipt of advance payment with respect to services to be supplied to Shelly. A receipt voucher is a document evidencing receipt of advance money towards a supply of goods and/or services or both. A registered person, on receipt of advance payment with respect to any supply of goods or services or both, shall issue a receipt voucher or any other document, evidencing receipt of such payment.

Where, on receipt of advance payment with respect to any supply of goods or services or both the registered person issues a receipt voucher, but subsequently no supply is made and no tax invoice is issued in pursuance thereof, the said registered person may issue to the person who had made the payment, a refund voucher against such payment. Therefore, in case subsequently no services are supplied by Narayan Singh, and no tax invoice is issued in pursuance thereof, Narayan Singh may issue a refund voucher against such payment to Shelly

Question 12

Kartik & Co., a registered supplier under GST, provides the following information regarding various tax invoices issued by it during the month of March:

- (i) Value of supply charged in invoice no. 1 was ₹ 2,50,000 against the actual taxable value of ₹ 2,30,000.
- (ii) Tax charged in invoice no. 4 was ₹ 32,000 against the actual tax liability of ₹ 68,000 due to wrong HSN code being chosen while issuing invoice.
- (iii) Value charged in invoice no. 8 was ₹ 3,20,000 as against the actual value of ₹ 4,20,000 due to wrong quantity considered while billing.

Kartik & Co. asks you to Answer the following:

- (1) Who shall issue a debit/credit note under CGST Act?
- (2) Whether debit note or credit note has to be issued in each of the above circumstances?
- (3) What is the maximum time-limit available for declaring the credit note in the GST Return? (MTP 6 Marks, Oct'21 & April '22)

Answer 12

1. The debit/credit note shall be issued by the registered person who has supplied the goods and/or services, i.e. Kartik & Co.
2. Yes, debit/credit note need to be issued in each of the circumstances as under:
 - (i) A credit note is required to be issued as the taxable value in invoice no. 1 exceeds the actual taxable value.
 - (ii) A debit note is required to be issued as the tax charged in the invoice no. 4 is less than the actual tax payable.
 - (iii) A debit note is required to be issued as the value of supply charged in the invoice no. 8 is less than the actual value.
3. The details of the credit note cannot be declared later than the return for the month of ~~September~~ **As** per amendment 30th November following the end of the financial year in which such supply was made or the date of furnishing of the relevant annual return, whichever is earlier.

Question 13

Angira Ltd. is a supplier of taxable goods in Karnataka. It got registered under GST in the month of September, 20XX and wishes to pay its IGST liability for the month. Since it is making the GST payment for the first time, it is of the view that it needs to mandatorily has the online banking facility to make payment of GST; offline payment is not permitted under GST. You are required to apprise Angira Ltd. regarding the various modes of deposit in the electronic cash ledger.

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Further, advise it with regard to following issues:

- (a) **Are manual challans allowed under GST?**
 (b) **What is the validity period of the challan? (MTP 4 Marks, Oct'20)**

Answer 13

As per the provisions of CGST Act, 2017 read with relevant rules, the deposit in electronic cash ledger can be made through any of the following modes, namely: -

- (i) Internet Banking through authorised banks;
 (ii) Credit card or Debit card through the authorised bank;
 (iii) National Electronic Fund Transfer or Real Time Gross Settlement from any bank;
 or
 (iv) Over the Counter payment through authorised banks for deposits up to ten thousand rupees per challan per tax period, by cash, cheque or demand draft.

Thus, offline mode is also permitted under GST subject to specified conditions.

- (a) Manual or physical Challans are not allowed under the GST regime. It is mandatory to generate Challans online on the GST Portal.
 (b) Challan is valid for a period of 15 days.

Question 14

Under what circumstances does the need of issuance of debit note and credit note arise under section 34 of CGST Act, 2017? (MTP 5 Marks, Oct'18)

Answer 14

Debit note is required to be issued

- (i) if taxable value charged in the tax invoice is found to be less than the taxable value in respect of supply of goods and/or services or
 (ii) if tax charged in the tax invoice is found to be less than the tax payable in respect of supply of goods and/or services

Credit note is required to be issued: -

- (i) If taxable value charged in the tax invoice is found to exceed the taxable value in respect of supply of goods and/or services, or
 (ii) If tax charged in the tax invoice is found to exceed the tax payable in respect of supply of goods and/or services, or
 (iii) if goods supplied are returned by the recipient, or
 (iv) if goods and/or services supplied are found to be deficient.

Question 15

Discuss the time-limit for issuance of invoice in case of taxable supply of goods. (MTP 3 Marks March'18)

Answer 15

In case of taxable supply of goods, invoice shall be issued before or at the time of—

- (a) removal of goods for supply to the recipient, where the supply involves movement of goods; or
 (b) delivery of goods or making available thereof to the recipient, in any other case.

In case of continuous supply of goods, where successive statements of accounts/successive payments are involved, the invoice shall be issued before/at the time each such statement is issued or each such payment is received [Section 31 of the CGST Act].

Question 16

Utsav Pvt. Ltd. of Meghalaya engaged in the supply of gifts items and repair services, provides you the following details:-

S. No.	Particulars	Date
1.	Commencement of the business of supplying goods and services	1st August

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2.	Turnover exceeds ₹ 10,00,000 on	15th August
3.	Turnover exceeds ₹ 20,00,000 on	5th September
4.	Application for registration made on	28th September
5.	Registration certificate granted on	6th October

The company seeks your advice as to how it should raise revised tax invoices for supplies made. Is there any specific provision for issuance of revised tax invoices to unregistered customers? Explain. (MTP 6 Marks March 22)

Answer 16

A supplier of both goods and services whose aggregate turnover in a financial year exceeds ₹ 20 lakh in a State/UT [₹ 10 lakh in specified Special Category States] is liable to apply for registration within 30 days from the date of becoming liable to registration (i.e., the date of crossing the threshold limit of ₹ 20 lakh/ ₹ 10 lakh) in terms of section 22 of the CGST Act, 2017. Since Meghalaya is not a specified Special Category State, applicable threshold limit is ₹ 20 lakh.

Further, where the application is submitted within said period, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration. Every registered person who has been granted registration with effect from a date earlier than the date of issuance of registration certificate to him, may issue revised tax invoices within 1 month from the date of issuance of registration certificate in respect of taxable supplies effected during this period i.e. from the effective date of registration till the date of issuance of registration.

Since Utsav Pvt. Ltd. has made the application for registration within 30 days of becoming liable for registration, the effective date of registration becomes the date on which the company becomes liable to registration i.e. 5th September.

Thus, Utsav Pvt. Ltd. may issue revised tax invoices against the invoices already issued during the period between effective date of registration (5th September) and the date of issuance of registration certificate (6th October), within 1 month from 6th October.

Further, Utsav Pvt. Ltd may issue a consolidated revised tax invoice in respect of all taxable supplies made to unregistered dealers during such period. However, in case of inter -State supplies made to unregistered dealers, a consolidated revised tax invoice cannot be issued in respect of all the recipients located in a State, if the value of a supply exceeds ₹ 2,50,000.

Question 17

Manmohan Textiles has to send cloth for dyeing to its job-worker. It wishes to know whether it needs to issue a tax invoice at the time of sending the goods to job-worker. You are required to advise it with reference to the provisions of the CGST Act. (MTP 4 Marks Sep'22)

Answer 17

Manmohan Textiles has to issue a delivery challan and not a tax invoice at the time of sending the goods to job-worker. For the purposes of transportation of goods for job work, the consignor **may** issue a delivery challan, serially numbered, in one or multiple series, in lieu of invoice at the time of removal of goods for transportation, containing the following details, namely:-

- (i) date and number of the delivery challan;
- (ii) name, address and GSTIN of the consigner, if registered;
- (iii) name, address and GSTIN/UIN of the consignee, if registered;
- (iv) Harmonised System of Nomenclature code and description of goods;
- (v) quantity (provisional, where the exact quantity being supplied is not known);

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- (vi) taxable value;
- (vii) tax rate and tax amount – central tax, State tax, integrated tax, Union territory tax or cess, where the transportation is for supply to the consignee;
- (viii) place of supply, in case of inter-State movement; and
- (ix) signature.

The delivery challan shall be prepared in triplicate, in case of supply of goods.

Question 18

ABC Ltd., a registered supplier has made following taxable supplies to its customer Mr. P in the quarter ending 30th June, 20XX.

Date	Bill No.	Particulars	Invoice value (including GST) [₹]
5th April, 20XX	102	Notebooks[10 in numbers]	1,200
10th May, 20XX	197	Chart Paper [4 in number]	600
20th May, 20XX	230	Crayon colors [2 packets]	500
2nd June, 20XX	254	Poster colors [5 packets]	900
22nd June, 20XX	304	Pencil box [4 sets]	700

Goods in respect of bill no. 102, 230 and 254 have been returned by Mr. P. You are required to advise ABC Ltd. whether it can issue consolidated credit note against all the three invoices? (RTP May '20)

Answer 18

Where one or more tax invoices have been issued for supply of any goods and/or services and

- (a) the taxable value/tax charged in that tax invoice is found to exceed the taxable value/tax payable in respect of such supply, or
- (b) where the goods supplied are returned by the recipient, or
- (c) where goods and/or services supplied are found to be deficient, the registered person, who has supplied such goods and/or services, may issue to the recipient one or more credit notes for supplies made in a financial year containing prescribed particulars.

Thus, one (consolidated) or more credit notes can be issued in respect of multiple invoices issued in a financial year without linking the same to individual invoices.

Hence, in view of the above-mentioned provisions, M/s ABC Ltd. can issue a consolidated credit note for the goods returned in respect of all the three invoices.

Question 19

Determine in which of the following independent cases, e-invoicing is applicable?

- (i) **Harnam & Co., dealing in interior decoration products made supplies to various registered and unregistered persons in the preceding financial year. The aggregate turnover of Harnam & Co. in the preceding financial year is ₹ 60 crore.**
- (ii) **Rich & Poor Bank, registered under GST has an aggregate turnover of ₹ 75 crore in the preceding financial year. (RTP Nov '21)**

Answer 19

All registered businesses with an aggregate turnover (based on PAN) in any preceding financial year from 2017-18 onwards greater than ₹ 50 crore are required to issue e-invoices in respect of B2B supplies (supply of goods and/or services to a registered person).

With effect from 01.10.2022, such limit has been reduced to ` 10 crore. Thus, e-invoicing has been made mandatory for all registered businesses with an aggregate turnover in any preceding financial year from 2017-18 onwards greater than ` 10 crore.

Further, following entities are exempt from the mandatory requirement of e-invoicing:-

- (a) Special Economic Zone units

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- (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

Thus, above mentioned entities are not required to issue e-invoices even if their turnover exceeds ₹ 50 crore in the preceding financial year from 2017-18 onwards.

In view of the above mentioned provisions, the Answer to the independent cases are as under:-

- (i) The aggregate turnover of Harnam & Co. exceeds the threshold limit of aggregate turnover applicable for e-invoicing. Thus, Harnam & Co. is mandatorily required to issue e-invoices in respect of supplies made to registered persons.
- (ii) Banking company is specifically exempt from mandatory requirement of e-invoicing even if the turnover exceeds ~~₹ 50 crore~~ **Rs 10 crore** in the preceding financial year. Thus, e- invoicing is not applicable to Rich & Poor Bank.

Question 20

- (a) **Eden Ltd., registered under GST and dealing in educational toys, has an aggregate turnover of ₹ 18 crore in the preceding financial year. The tax consultant of Eden Ltd. advised it to issue e-invoices mandatorily in the current financial year. However, Eden Ltd. is of the view that since it's aggregate turnover is less than the threshold limit applicable for e-invoicing, so it is not required to issue e-invoices. You are required to comment upon the validity of the advice given by Tax consultant.**
- (b) **A Government Department is registered under GST. It's aggregate turnover in the preceding financial year is ₹ 22 crore. You are required to comment with the help of relevant provisions whether the said Department is required to issue e-invoices in the current financial year. (RTP Nov '23)**

Answer 20

- (a) E-invoicing has been made mandatory for all registered businesses (except specified class of persons) with an aggregate turnover in any preceding financial year from 2017-18 onwards greater than ₹ 10 crore in respect of B2B supplies (supply of goods or services or both to a registered person) or for exports . Thus, the advice given by tax consultant of Eden Ltd. for issuance of e-invoices mandatorily in the current financial year is valid in law as the aggregate turnover of Eden Ltd. has exceeded the threshold limit i.e. ₹ 10 crore in the preceding financial year.
- (b) Following entities are exempt from the mandatory requirement of e-invoicing:
 - Special Economic Zone units
 - Insurer or banking company or financial institution including NBFC
 - GTA supplying services in relation to transportation of goods by road in a goods carriage
 - Supplier of passenger transportation service
 - Person supplying services by way of admission to exhibition of cinematograph films in multiplex screens
 - Government Department and a local authority

Further, the above taxpayers exempted from the mandatory requirement of e-invoicing are required to provide a declaration on the tax invoice stating that though their aggregate turnover exceeds the notified aggregate turnover for e-invoicing, they are not required to prepare an e-invoice.

Thus, above mentioned entities are not required to issue e-invoices even if their turnover exceeds ₹ 10 crore in the preceding financial year from 2017-18 onwards but are required to provide a declaration as discussed above.

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Thus, in the given case, the Government Department is not required to issue e-invoices in the current financial year even if its aggregate turnover has exceeded ₹ 10 crore.

Question 21

Is Dynamic Quick Response (QR) Code applicable to suppliers who issue invoice to unregistered persons? If no, list the suppliers to whom Dynamic QR Code is not applicable. (PYP 5 Marks Dec '21)

Answer 21

Dynamic QR code is applicable to invoices issued in respect of supplies made to unregistered persons by a registered supplier provided its aggregate turnover in any preceding financial year from 2017-18 onwards exceeds ₹ 500 crores.

However, it is not applicable to following suppliers issuing invoices to unregistered persons:-

- (v) Insurer or banking company or financial institution including NBFC
- (vi) GTA supplying services in relation to transportation of goods by road in a goods carriage
- (vii) Supplier of passenger transportation service
- (viii) Person supplying services by way of admission to exhibition of cinematograph films in multiplex screens
- (ix) Supplier of online information and database access or retrieval (OIDAR) service

Question 22

M/s. Xing Trans of Kolkata is engaged in the trading of transmitters. On 20/05/2021, M/s. Xing Trans has sent 500 units of transmitters for exhibition at Chennai on sale or return basis. Out of the said 500 units, 300 units have been sold on 28/07/2023 at the exhibition. Out of remaining 200 units, 150 units have been brought back to Kolkata on 25/11/2023 and balance 50 units have neither been sold nor brought back.

Explain the provisions under GST law relating to issue of invoices with exact dates on which tax invoices need to be issued by M/s. Xing Trans. (PYP 4 Marks May'22)

Answer 22

Where the goods being sent for sale or return are removed before the supply takes place, the tax invoice shall be issued before or at the time of supply or 6 months from the date of removal, whichever is earlier.

In the given case, 500 units of transmitters have been sent for exhibition on sale or return basis out of which 300 units are sold before 6 months from the date of removal. Thus, tax invoice for said 300 units needs to be issued before or at the time of supply of such goods, i.e. upto 28/07/2023.

Remaining 200 (150+ 50) units have neither been sold nor brought back till the expiry of 6 months from the date of removal goods, i.e. 20/11/2023. Thus, tax invoice for said 200 units needs to be issued upto 20/11/2023.

Question 23

Determine with reason whether the following statements are true or false:

- (iii) **A registered person shall issue separate invoices for taxable and exempted goods when supplying both taxable as well as exempted goods to an unregistered person.**
- (iv) **A Non-banking financial company can issue a consolidated tax invoice at the end of every month for the supply made during that month. (PYP 3 Marks, May'18)**

Answer 23

- (iii) The given statement is false.

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Where a registered person is supplying taxable as well as exempted goods or services or both to an unregistered person, a single "invoice-cum-bill of supply" may be issued for all such supplies.

(iv) The said statement is true.

A non-banking financial company is allowed to issue a consolidated tax invoice or any other document in lieu thereof for the supply of services made during a month at the end of the month.

Question 24

List out the situations in which a Credit note/Debit note may be issued under the CGST Act, 2017. (PYP 5 Marks May '19)

Answer 24

Credit note is required to be issued by the Supplier: -

- (v) If taxable value charged in the tax invoice is found to exceed the taxable value in respect of supply of goods and/or services, or
- (vi) If tax charged in the tax invoice is found to exceed the tax payable in respect of supply of goods and/or services, or
- (vii) if goods supplied are returned by the recipient, or
- (viii) if goods and/or services supplied are found to be deficient. Debit note is required to be issued by the Supplier: -
 - (iii) if taxable value charged in the tax invoice is found to be less than the taxable value in respect of supply of goods and/or services or
 - (iv) if tax charged in the tax invoice is found to be less than the tax payable in respect of supply of goods and/or services.

Question 25

Narayan Singh, a registered supplier, has received advance payment with respect to services to be supplied to Shelly. His accountant asked him to issue the receipt voucher with respect to such services to be supplied. However, he is apprehensive as to what would happen in case a receipt voucher is issued, but subsequently no services are supplied. You are required to advise Narayan Singh regarding the same. (MTP 6 Marks Sep '23)

Answer 25

Narayan Singh is required to issue a receipt voucher at the time of receipt of advance payment with respect to services to be supplied to Shelly. A receipt voucher is a document evidencing receipt of advance money towards a supply of goods and/or services or both. A registered person, on receipt of advance payment with respect to any supply of goods or services or both, shall issue a receipt voucher or any other document, evidencing receipt of such payment.

Where, on receipt of advance payment with respect to any supply of goods or services or both the registered person issues a receipt voucher, but subsequently no supply is made and no tax invoice is issued in pursuance thereof, the said registered person may issue to the person who had made the payment, a refund voucher against such payment. Therefore, in case subsequently no services are supplied by Narayan Singh, and no tax invoice is issued in pursuance thereof, Narayan Singh may issue a refund voucher against such payment to Shelly

Question 26

Utsav Pvt. Ltd. of Meghalaya engaged in the supply of gifts items and repair services, provides you the following details:-

S. No.	Particulars	Date
1.	Commencement of the business of supplying goods and services	1st August

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2.	Turnover exceeds ₹ 10,00,000 on	15th August
3.	Turnover exceeds ₹ 20,00,000 on	5th September
4.	Application for registration made on	28th September
5.	Registration certificate granted on	6th October

The company seeks your advice as to how it should raise revised tax invoices for supplies made. Is there any specific provision for issuance of revised tax invoices to unregistered customers? Explain. (RTP Nov'18)

Answer 26

A supplier of both goods and services whose aggregate turnover in a financial year exceeds ₹ 20 lakh in a State/UT [₹ 10 lakh in specified Special Category States] is liable to apply for registration within 30 days from the date of becoming liable to registration (i.e., the date of crossing the threshold limit of ₹ 20 lakh/ ₹ 10 lakh) in terms of section 22 of the CGST Act, 2017. Since Meghalaya is not a specified Special Category State, applicable threshold limit is ₹ 20 lakh.

Further, where the application is submitted within said period, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration. Every registered person who has been granted registration with effect from a date earlier than the date of issuance of registration certificate to him, may issue revised tax invoices within 1 month from the date of issuance of registration certificate in respect of taxable supplies effected during this period i.e. from the effective date of registration till the date of issuance of registration.

Since Utsav Pvt. Ltd. has made the application for registration within 30 days of becoming liable for registration, the effective date of registration becomes the date on which the company becomes liable to registration i.e. 5th September.

Thus, Utsav Pvt. Ltd. may issue revised tax invoices against the invoices already issued during the period between effective date of registration (5th September) and the date of issuance of registration certificate (6th October), within 1 month from 6th October.

Further, Utsav Pvt. Ltd may issue a consolidated revised tax invoice in respect of all taxable supplies made to unregistered dealers during such period. However, in case of inter -State supplies made to unregistered dealers, a consolidated revised tax invoice cannot be issued in respect of all the recipients located in a State, if the value of a supply exceeds ₹ 2,50,000.

Section - B

Question 1

Sultan Industries Ltd., Delhi, entered into a contract with Prakash Entrepreneurs, Delhi, for supply of spare parts of a machine on 7th September. The spare parts were to be delivered on 30th September. Sultan Industries Ltd. removed the finished spare parts from its factory on 29th September. Determine the date by which invoice must be issued by Sultan Industries Ltd. under GST law. (Old & New)

Answer 1

As per the provisions of section 31, invoice shall be issued before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods. Accordingly, in the given case, the invoice must be issued on or before 29th September.

Question 2

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Paper 3 - Taxation

MBM Caretakers, a registered person, provides the services of repair and maintenance of electrical appliances. On April 1, it has entered into an annual maintenance contract with P for its Air Conditioner and Washing Machine. As per the terms of contract, maintenance services will be provided on the first day of each quarter of the relevant financial year and payment for the same will also be due on the date on which service is rendered. During the year, it provided the services on April 1, July 1, October 1, and January 1 in accordance with the terms of contract. When should MBM Caretakers issue the invoice for the services rendered? (Old & New)

Answer 2

Continuous supply of service means, inter alia, supply of any service which is provided, or agreed to be provided continuously or on recurrent basis, under a contract, for a period exceeding 3 months with the periodic payment obligations.

Therefore, the given situation is a case of continuous supply of service as repair and maintenance services have been provided by MBM Caretakers on a quarterly basis, under a contract, for a period of one year with the obligation for quarterly payment.

In terms of section 31, in case of continuous supply of service, where due date of payment is ascertainable from the contract (as in the given case), invoice shall be issued on or before the due date of payment.

Therefore, in the given case, MBM Caretakers should issue quarterly invoices on or before April 1, July 1, October 1, and January 1.

Question 3

The aggregate turnover of Sangri Services Ltd., Delhi, exceeded ` 20 lakh on 12th August. He applied for registration on 3rd September and was granted the registration certificate on 6th September. You are required to advise Sangri Services Ltd. as to what is the effective date of registration in its case. It has also sought your advice regarding period for issuance of Revised Tax Invoices. (Old & New)

Answer 3

As per section 25 read with CGST Rules, where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration. Since, Sangri Services Ltd.'s turnover exceeded ` 20 lakh on 12th August, it became liable to registration on same day. Further, it applied for registration within 30 days of so becoming liable to registration, the effective date of registration is the date on which he becomes liable to registration, i.e. 12th August. As per section 31 read with CGST Rules, every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue Revised Tax Invoices. Revised Tax Invoices shall be issued within 1 month from the date of issuance of certificate of registration. Revised Tax Invoices shall be issued within 1 month from the date of issuance of registration in respect of taxable supplies effected during the period starting from the effective date of registration till the date of issuance of certificate of registration. Therefore, in the given case, Sangri Services Ltd. has to issue the Revised Tax Invoices in respect of taxable supplies effected during the period starting from the effective date of registration (12th August) till the date of issuance of certificate of registration (6th September) within 1 month from the date of issuance of certificate of registration, i.e. on or before 6th October.

Question 4

Shyam Fabrics has opted for composition levy scheme in the current financial year. It has approached you for advice whether it is mandatory for it to issue a tax invoice. You are required to advise him regarding same. (Old & New)

Answer 4

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A registered person paying tax under the provisions of section 10 [composition levy] shall issue, instead of a tax invoice, a bill of supply containing such particulars and in such manner as may be prescribed [Section 31(3)(c) read with CGST Rules, 2017]. Therefore, in the given case, Shyam Fabrics cannot issue tax invoice. Instead, it shall issue a Bill of Supply.

Question 5

Royal Fashions, a registered supplier of designer outfits in Delhi, decides to exhibit its products in a Fashion Show being organized at Hotel Park Royal, Delhi on 4th January. For the occasion, it gets the service by way of makeover of its models from Aura Beauty Services Ltd., Ashok Vihar, for which a consideration is ₹ 5,00,000 (excluding GST) has been charged. Aura Beauty Services Ltd. issued a duly signed tax invoice on 10th February showing the lumpsum amount of ₹ 5,90,000 inclusive of CGST and SGST @ 9% each for the services provided.

Answer the following questions:

- (i) **Examine whether the tax invoice has been issued within the time limit prescribed under law.**
- (ii) **Tax consultant of Royal Fashions objected to the invoice raised suggesting that the amount of tax charged in respect of the taxable supply should be shown separately in the invoice raised by Aura Beauty Services Ltd. However, Aura Beauty Services Ltd. contended that there is no mandatory requirement of showing tax component separately in the invoice. You are required to examine the validity of the objection raised by tax consultant of Royal Fashions. (Old & New)**

Answer 5

- (i) As per section 31 read with the CGST Rules, in case of taxable supply of services, invoices should be issued before or after the provision of service, but within a period of 30 days [45 days in case of insurer/ banking company or financial institutions including NBFCs] from the date of supply of service. In view of said provisions, in the present case, the tax invoice should have been issued in the prescribed time limit of 30 days from the date of supply of service i.e. upto 3rd February. However, the invoice has been issued on 10th February.
- (ii) Section 31 read with the CGST Rules, inter alia, provides that tax invoice in addition to other mandatory details shall also contain the amount of tax charged in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess). Further, where any supply is made for a consideration, every person who is liable to pay tax for such supply shall prominently indicate in all documents relating to assessment, tax invoice and other like documents, the amount of tax which shall form part of the price at which such supply is made.
The objection raised by the tax consultant of Royal Fashions suggesting that the amount of tax charged in respect of the taxable supply of makeover services should be shown separately in the invoice raised by Aura Beauty Services Ltd., is valid in law.

Question 6

Kidzee Toys Ltd., a wholesaler of toys registered in Chandigarh, is renowned in the local market for the variety of toys and their reasonable prices. Kidzee Toys Ltd. makes supply of 100 pieces of baby's learning laptops and chat learning phones to Nancy General Store on 25th September by issuing a tax invoice amounting to ₹ 1,00,000. However, the said toys were returned by Nancy General Store on 30th September. Discuss which document Kidzee Toys Ltd. is required to issue in such a case? (Old & New)

Answer 6

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Kidzee Ltd. is required to issue a credit note in such a case.

As per section 34, where one or more tax invoices have been issued for supply of any goods or services or both and the goods supplied are returned by the recipient the registered person, who has supplied such goods or services or both, may issue to the recipient one or more credit notes for supplies made in a financial year containing such particulars as may be prescribed. Therefore, Kidzee Ltd. is required to issue a credit note to Nancy General Store for the good returned.

Question 7

Rana Sanga Ltd., a registered supplier, has made following taxable supplies to its customer Babur in the quarter ending 30th June.

Date	Bill No.	Particulars	Invoice value (including GST) [₹]
5 th April	102	Notebooks [10 in numbers]	1,200
10 th May	197	Chart Paper [4 in number]	600
20 th May	230	Crayon colors [2 packets]	500
2 nd June	254	Poster colors [5 packets]	900
22 nd June	304	Pencil box [4 sets]	700

Goods in respect of bill no. 102, 230 and 254 have been returned by Babur. You are required to advise Rana Sanga Ltd. whether it can issue a consolidated credit note against all the three invoices? (Old & New)

Answer 7

Where one or more tax invoices have been issued for supply of any goods and/or services and

- the taxable value/tax charged in that tax invoice is found to exceed the taxable value/tax payable in respect of such supply, or
- where the goods supplied are returned by the recipient, or
- where goods and/or services supplied are found to be deficient, the registered person, who has supplied such goods and/or services, may issue to the recipient one or more credit notes for supplies made in a financial year containing prescribed particulars.

Thus, one (consolidated) or more credit notes can be issued in respect of multiple invoices issued in a financial year without linking the same to individual invoices. Hence, in view of the above-mentioned provisions, Rana Sanga Ltd. can issue a consolidated credit note for the goods returned in respect of all the three invoices.

Question 8

Chidanand Products Pvt. Ltd. is a registered supplier who has opted for composition levy in the current financial year. He wishes to know whether the issue of a bill of supply can be dispensed with under any circumstances. You are required to advise him. (Old & New)

Answer 8

Yes. Chidanand Products Pvt. Ltd. may not issue a bill of supply if the value of the goods or services or both supplied is less than ₹ 200 subject to the condition that:

- the recipient is not a registered person; and
- the recipient does not require such bill of supply, and he shall issue a

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consolidated bill of supply for such supplies at the close of each day in respect of all such supplies.

Question 9

A registered person has to mandatorily issue separate invoices for taxable and exempted goods when supplying both taxable as well as exempted goods to an unregistered person. Examine the validity of the statement. (Old & New)

Answer 9

The statement is not valid in law. As per the CGST Rules, where a registered person is supplying taxable as well as exempted goods or services or both to an unregistered person, a single "invoice-cum-bill of supply" may be issued for all such supplies.

Question 10

A non-banking financial company can issue a consolidated tax invoice at the end of every month for the supply made during that month. Examine the validity of the statement. (Old & New)

Answer 10

The said statement is valid in law. A customer may avail numerous services from a non-banking financial company in a given tax period. It may issue a consolidated tax invoice/ statement/ advice, any other document in lieu thereof, by whatever name called may be issued/ made available, physically/ electronically, for supply of services made during a month at the end of the month.

Question 11

Sakthi Enterprises, Kolkata entered into a contract with Suraj Enterprises, Surat for supply of goods and the delivery shall be made on or before 31st October. The goods were removed from the factory at Kolkata on 11th October. As per the agreement, the goods were to be delivered on or before 31st October. Suraj Enterprises has received the goods on 14th October. Determine the time of issue of invoice as per the provisions of CGST Act. (Old & New)

Answer 11

A registered person supplying taxable goods shall issue a tax invoice, before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods.

Therefore, in the given case, invoice has to be issued on or before, 11th October (the time of removal of goods).

Question 12

Trust and Fun Ltd., an event management company, has provided its services for an event at Kapoor Film Agencies, Mumbai on 5th June. Payment for the event was made on 19th June. Determine the time of issue of invoice as per the provisions of CGST Act. (Old & New)

Answer 12

A registered person [other than an insurer/banking company/financial institution, including an NBFC] supplying taxable services shall issue a tax invoice before or after the provision of service, but within a period of 30 days from the date of supply of service. Thus, in the given case, invoice has to be issued within 30 days of 5th June (date of supply of service), i.e. on or before, 5th July.

Question 13

Udai Singh, a registered supplier, has received advance payment with respect to services to be supplied to Sujamal. His accountant asked him to issue the receipt voucher with respect to such services to be supplied. However, he is apprehensive as to what would happen in case a receipt voucher is issued, but

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subsequently no services are supplied. You are required to advise Udai Singh regarding the same. (Old & New)

Answer 13

Udai Singh is required to issue a receipt voucher at the time of receipt of advance payment with respect to services to be supplied to Sujamal. A receipt voucher is a document evidencing receipt of advance money towards a supply of goods and/or services or both. A registered person, on receipt of advance payment with respect to any supply of goods or services or both, shall issue a receipt voucher or any other document, evidencing receipt of such payment.

Where, on receipt of advance payment with respect to any supply of goods or services or both the registered person issues a receipt voucher, but subsequently no supply is made and no tax invoice is issued in pursuance thereof, the said registered person may issue to the person who had made the payment, a refund voucher against such payment. Therefore, in case subsequently no services are supplied by Udai Singh, and no tax invoice is issued in pursuance thereof, Udai Singh may issue a refund voucher against such payment to Sujamal.

Question 14

Bhoj Raj, a registered person, has availed GTA services on which he is liable to pay tax under reverse charge. He wishes to know whether he is required to issue an invoice. Please advise him discussing the relevant provisions under CGST Act and rules thereunder. (Old & New)

Answer 14

Bhoj Raj is required to issue an invoice with regard to the GTA services availed by him. A registered person who is liable to pay tax under sub-section (3) or sub-section (4) of section 9 (i.e. where the recipient is liable to discharge GST on reverse charge basis) shall issue an invoice in respect of goods or services or both received by him from the supplier on the date of receipt of goods or services or both.

Question 15

Sitaram Textiles has to send cloth for dyeing to its job-worker. It wishes to know whether it needs to issue a tax invoice at the time of sending the goods to job-worker. Please advise him with reference to the provisions of the CGST Act. (Old)

Answer 15

Sitaram Textiles has to issue a delivery challan and not the tax invoice at the time of sending the goods to job-worker. Rule 55, inter alia, stipulates that for the purposes of transportation of goods for job work, the consignor may issue a delivery challan, serially numbered, in one or multiple series, in lieu of invoice at the time of removal of goods for transportation, containing the following details, namely:-

- (i) date and number of the delivery challan;
- (ii) name, address and Goods and Services Tax Identification Number of the consignor, if registered;
- (iii) name, address and Goods and Services Tax Identification Number or Unique Identity Number of the consignee, if registered;
- (iv) Harmonised System of Nomenclature code and description of goods;
- (v) quantity (provisional, where the exact quantity being supplied is not known);
- (vi) taxable value;
- (vii) tax rate and tax amount – central tax, State tax, integrated tax, Union territory tax or cess, where the transportation is for supply to the consignee;
- (viii) place of supply, in case of inter-State movement; and

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(ix) signature.

The delivery challan shall be prepared in triplicate, in case of supply of goods, in the following manner, namely:-

- (a) the original copy being marked as ORIGINAL FOR CONSIGNEE;
- (b) the duplicate copy being marked as DUPLICATE FOR TRANSPORTER; and
- (c) the triplicate copy being marked as TRIPLICATE FOR CONSIGNER.

Question 16 (Illustration)

Luv & Kush Pvt. Ltd. of Meghalaya engaged in the supply of gifts items and repair services, provides you the following details:-

S. No.	Particulars	Date
1.	Commencement of the business of supplying goods and services	01 st August
2.	Turnover exceeds ₹ 10,00,000 on	15 th August
3.	Turnover exceeds ₹ 20,00,000 on	05 th September
4.	Application for registration made on	28 th September
5.	Registration certificate granted on	06 th October

The company seeks your advice as to how it should raise revised tax invoices for supplies made. Is there any specific provision for issuance of revised tax invoices to unregistered customers? Explain. (Old & New)

Answer 16

A supplier of both goods and services whose aggregate turnover in a financial year exceeds ₹ 20 lakh in a State/UT [₹ 10 lakh in specified Special Category States] is liable to apply for registration within 30 days from the date of becoming liable to registration (i.e., the date of crossing the threshold limit of ₹ 20 lakh/ ₹ 10 lakh) in terms of section 22. Since Meghalaya is not a specified Special Category State, applicable threshold limit is ₹ 20 lakh. Further, where the application is submitted within said period, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

Every registered person who has been granted registration with effect from a date earlier than the date of issuance of registration certificate to him, may issue revised tax invoices within 1 month from the date of issuance of registration certificate in respect of taxable supplies effected during this period i.e. from the effective date of registration till the date of issuance of registration.

Since Luv & Kush Pvt. Ltd. has made the application for registration within 30 days of becoming liable for registration, the effective date of registration becomes the date on which the company becomes liable to registration i.e. 5th September.

Thus, Luv & Kush Pvt. Ltd. may issue revised tax invoices against the invoices already issued during the period between effective date of registration (5th September) and the date of issuance of registration certificate (6th October), within 1 month from 6th October.

Further, Luv & Kush Pvt. Ltd. may issue a consolidated revised tax invoice in respect of all taxable supplies made to unregistered dealers during such period. However, in case of inter-State supplies made to unregistered dealers, a consolidated revised tax invoice cannot be issued in respect of all the recipients located in a State, if the value of a supply exceeds ₹ 2,50,000.

Question 17 (Illustration)

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Paper 3 - Taxation

Jain & Sons is a trader dealing in stationery items. It is registered under GST and has undertaken following sales during the day:

S. No.	Recipient of supply	Amount (₹)
1	Raghav Traders - a registered retail dealer	190
2	Dhruv Enterprises - an unregistered trader	358
3	Gaurav - a painter [unregistered]	500
4	Oberoi Orphanage - an unregistered entity	188
5	Aaradhya - a student [unregistered]	158

None of the recipients require a tax invoice [Raghav Traders being a composition dealer].

Determine in respect of which of the above supplies, Jain & Sons may issue a Consolidated Tax Invoice instead of Tax Invoice, at the end of the day. (Old & New)

Answer 17

In the given illustration, Jain & Sons can issue a Consolidated Tax Invoice only with respect to supplies made to Oberoi Orphanage [worth ₹ 188] and Aaradhya [worth ₹ 158] as the value of goods supplied to these recipients is less than ₹ 200 as also these recipients are unregistered and don't require a tax invoice.

As regards the supply made to Raghav Traders, although the value of goods supplied to it is less than ₹ 200, Raghav Traders is registered under GST. So, Consolidated Tax Invoice cannot be issued.

Consolidated Tax Invoice can also not be issued for supplies of goods made to Dhruv Enterprises and Gaurav although both of them are unregistered. The reason for the same is that the value of goods supplied is not less than ₹ 200.

Question 18 (Illustration)

Kartik & Co., a registered supplier under GST, provides the following information regarding various tax invoices issued by it during the month of March:

- (i) Value of supply charged in invoice no. 1 was ₹ 2,50,000 against the actual taxable value of ₹ 2,30,000.
- (ii) Tax charged in invoice no. 4 was ₹ 32,000 against the actual tax liability of ₹ 68,000 due to wrong HSN code being chosen while issuing invoice.
- (iii) Value charged in invoice no. 8 was ₹ 3,20,000 as against the actual value of ₹ 4,20,000 due to wrong quantity considered while billing.

Kartik & Co. asks you to answer the following:

- (1) Who shall issue a debit/credit note under CGST Act?
- (2) Whether debit note or credit note has to be issued in each of the above circumstances?
- (3) What is the maximum time-limit available for declaring the credit note in the GST Return?

Answer 18

- (1) The debit/credit note shall be issued by the registered person who has supplied the goods and/or services, i.e. Kartik & Co.
- (2) Yes, debit/credit note need to be issued in each of the circumstances as under:
 - (i) A credit note is required to be issued as the taxable value in invoice no. 1 exceeds the actual taxable value.

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Paper 3 - Taxation

Chapter 11

Accounts and Records, E-way Bills

Attempt wise Distribution

Attempts	May'18	Nov'18	May'19	Nov'19	Nov'20	Jan'21	Jul'21	Dec'21	May'22	Nov'22	May'23	Nov'23
MCQ												
MTP			Q2									
RTP			Q1									
Q & A												
MTP	Q4											
PYP			Q2, Q3					Q5	Q1			

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Which of the following statements are true with respect to accounts and records?
- (1) All accounts and records are to be retained for 6 years.
 - (2) Stock record is to be maintained by all registered dealers except the dealers registered under composition scheme.
 - (3) Stock record is to be maintained by all registered dealers including composition dealers.
 - (4) Monthly production records are to be maintained by all dealers except the dealers who have taken option for composition.
 - (5) Monthly production records are to be maintained by all dealers including composition dealers.
 - (6) Records are to be maintained at principal place of business.
 - (a) 1, 2, 5, 6
 - (b) 1, 3, 5
 - (c) 1, 3, 4
 - (d) 1, 2, 4, 6 (RTP May '19)

Ans: (a)

2. Which of the following statements are true w.r.t. accounts and records under GST laws?
- (a) All accounts and records are to be retained for 5 years.
 - (b) Stock record is to be maintained by all registered dealers except the dealers registered under composition scheme.
 - (c) Stock record is to be maintained by all registered dealers including composition dealers.
 - (d) Monthly production records are to be maintained by all dealers except the dealers who have taken option for composition. (MTP 1)

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Marks April '19)

Ans: (b)

Question & Answers**Question 1**

Comment on the given independent situations relating to GST procedures. Your Answer should include relevant provisions of law, as may be applicable:

GoToDress is a chain of stores dealing in readymade garments through five showrooms in Delhi. It has a single GSTIN for all its showrooms in Delhi and has a principal place of business at Karol Bagh, Delhi. One of the consultants has suggested GoToDress to maintain books of accounts of all of its five showrooms at principal place of business at Karol Bagh, Delhi for better administration and control. Give your comment on the above advice according to the provisions of GST law. (PYP 2 Marks May '22)

Answer 1

The suggestion of the consultant is not correct.

Every registered person is required to keep and maintain, his books of accounts at his principal place of business.

Where more than one place of business is specified in the certificate of registration, the accounts relating to each place of business shall be kept at such places of business.

Question 2

Whether the transporters, who are not registered under the GST, are required to maintain any records under the provisions of CGST Act, 2017? Also explain, if any other unregistered persons who are required to maintain records under GST. (PYP 2 Marks Jan 21)

Answer 2

The transporters, who are not registered under GST, shall obtain a unique enrollment number on GST common portal and maintain records of goods transported, delivered and goods stored in transit by them along with GSTIN of the registered consignor and consignee for each of his branches. Every owner or operator of warehouse/godown/any other place used for storage of goods, even if unregistered, is also required to maintain records under GST.

Question 3

Mr. Sky is engaged in the business of trading of mobiles. He is eligible for composition scheme and has opted for the same. He seeks your advice for records which are not required to be maintained by him as composition taxable person. (PYP 5 Marks May '19)

Answer 3

A supplier who has opted for composition scheme is not required to maintain records relating to;

- (a) Stock of goods: Accounts of stock in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost stolen, destroyed, written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.
- (b) Details of tax: Account, containing the details of tax payable (including tax payable under reverse charge), tax collected and paid, input tax, input tax credit claimed, together with a register of tax invoice, credit notes, debit notes, delivery challan issued or received during any tax period.

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Thus, Mr. Sky is not required to maintain above mentioned records.

Question 4

Explain the provisions relating to period of retention of accounts as provided under section 36 of CGST Act, 2017? (MTP 5 Marks April '18)

Answer 4

Section 36 of the CGST Act explains the provisions relating to period of retention of accounts as under: -

Every registered person required to keep and maintain books of account or other records shall retain them until the expiry of 72 months from the due date of furnishing of annual return for the year pertaining to such accounts and records. However, a registered person, who is a party to an appeal or revision or any other proceedings before any Appellate Authority or Revisional Authority or Appellate Tribunal or court, whether filed by him or by the Commissioner, or is under investigation for an offence under Chapter XIX, shall retain the books of account and other records pertaining to the subject matter of such appeal or revision or proceedings or investigation for a period of 1 year after final disposal of such appeal or revision or proceedings or investigation, or for the period specified above, whichever is later.

Question 5

List any four records required to be maintained by an agent under the CGST Rules, 2017. (PYP 4 Marks Dec '21)

Answer 5

Every agent shall maintain accounts depicting the-

- (a) particulars of authorisation received by him from each principal to receive or supply goods or services on behalf of such principal separately;
- (b) particulars including description, value and quantity (wherever applicable) of goods or services received on behalf of every principal;
- (c) particulars including description, value and quantity (wherever applicable) of goods or services supplied on behalf of every principal;
- (d) details of accounts furnished to every principal; and
- (e) tax paid on receipts or on supply of goods or services effected on behalf of every principal.

Section - B

Question 1

Mala Services Ltd. is a supplier of management consultancy services registered in Haryana. It has approached you to ascertain the period for which the books of accounts or other records need to be maintained? (Old SM)

Answer 1

Section 36 stipulates that every registered person required to keep and maintain books of account or other records in accordance with the provisions of sub-section (1) of section 35 shall retain them until the expiry of 72 months from the due date of furnishing of annual return for the year pertaining to such accounts and records. However, a registered person, who is a party to an appeal or revision or any other proceedings before any Appellate Authority or Revisional Authority or Appellate Tribunal or court, whether filed by him or by the Commissioner, or is under investigation for an offence under Chapter XIX, shall retain the books of account and other records pertaining to the subject matter of such appeal or revision or proceedings or investigation for a period of one year after final disposal of such appeal or revision or proceedings or investigation, or for the period specified above, whichever is later.

Paper 3 - Taxation

Question 2

Essel Groups has started making taxable supplies and gets registered under GST law. You are required to advice it about the accounts and records required to be maintained by it as required under section 35 (1). (Old SM)

Answer 2

Section 35(1) stipulates that a true and correct account of following is to be maintained:

- (a) production or manufacture of goods;
- (b) inward and outward supply of goods or services or both;
- (c) stock of goods;
- (d) input tax credit availed;
- (e) output tax payable and paid
- (f) such other particulars as may be prescribed.

Question 3

Swad Restaurant has opted for composition scheme in the current financial year. Discuss the records which are not to be maintained by a supplier opting for composition levy though required to be maintained by a normal tax-payer as enumerated in rule 56. (Old SM)

Answer 3

Following records are not required to be maintained by a supplier who has opted for composition scheme as per rule 56(2) and (4), but are required to be maintained by a normal tax payer:

- (I) **Stock of goods:** Accounts of stock in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost, stolen, destroyed, written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.
- (II) **Details of tax:** Account, containing the details of tax payable (including tax payable under reverse charge), tax collected and paid, input tax, input tax credit claimed, together with a register of tax invoice, credit notes, debit notes, delivery challan issued or received during any tax period.

Question 4

ABC Manufacturers Ltd. engages Raghav & Sons as an agent to sell goods on its behalf wherein the invoice for supply or procurement on behalf of ABC Manufacturers Ltd. is issued by Raghav & Sons in its own name. For the purpose, ABC Manufacturers Ltd. has supplied the goods to Raghav & Sons located in Haryana. Enumerate the accounts required to be maintained by Raghav & Sons as per rule 56(11). (Old SM)

Answer 4

Rule 56(11) provides that every agent shall maintain accounts depicting the-

- (a) particulars of authorization received by him from each principal to receive or supply goods or services on behalf of such principal separately;
- (b) particulars including description, value and quantity (wherever applicable) of goods or services received on behalf of every principal;
- (c) particulars including description, value and quantity (wherever applicable) of goods or services supplied on behalf of every principal;
- (d) details of accounts furnished to every principal; and
- (e) tax paid on receipts or on supply of goods or services effected on behalf of every principal.

Question 5

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Paper 3 - Taxation

Sindhi Toys Manufacturers, registered in Punjab, sold electronic toys to a retail seller in Gujarat, at a value of ₹ 48,000 (excluding GST leviable @ 18%). It wants to send the consignment of such toys to the retail seller in Gujarat.

You are required to advise Sindhi Toys Manufacturers on the following issues:

- (a) **Whether e-way bill is mandatorily required to be generated in respect of such movement of goods?**
- (b) **If yes, who is required to generate the e-way bill?**
- (c) **What will be the consequences for non-issuance of e-way bill? (Old SM)**

Answer 5

- (a) Rule 138(1) provides that e-way Bill is mandatorily required to be generated if the goods are moved, inter alia, in relation to supply and the consignment value exceeds ₹ 50,000. Further, explanation 2 to rule 138(1) stipulates that the consignment value of goods shall be the value, determined in accordance with the provisions of section 15, declared in an invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment and also includes CGST, SGST/UTGST, IGST and cess charged, if any, in the document and shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Accordingly, in the given case, the consignment value will be as follows:

$$= ₹ 48,000 \times 118\% = ₹ 56,640.$$

Since the movement of goods is in relation to supply of goods and the consignment value exceeds ₹ 50,000, e-way bill is mandatorily required to be issued in the given case.

- (b) An e-way bill contains two parts namely, Part A to be furnished by the registered person who is causing movement of goods of consignment value exceeding ₹ 50,000/- and part B (transport details) is to be furnished by the person who is transporting the goods.

Where the goods are transported by the registered person as a consignor or the recipient of supply as the consignee, whether in his own conveyance or a hired one or a public conveyance, by road, the said person shall generate the e-way bill on the common portal after furnishing information in Part B [Rule 138(2)].

Where the goods are transported by railways or by air or vessel, the e-way bill shall be generated by the registered person, being the supplier or the recipient, who shall, either before or after the

commencement of movement, furnish, on the common portal, the information in Part B [Rule 138(2A)].

Where the goods are handed over to a transporter for transportation by road, the registered person shall furnish the information relating to the transporter on the common portal and the e-way bill shall be generated by the transporter on the said portal on the basis of the information furnished by the registered person in Part A [Rule 138(3)].

Where the consignor or the consignee has not generated the e-way bill and the aggregate of the consignment value of goods carried in the conveyance is more than ₹ 50,000/-, the transporter, except in case of transportation of goods by railways, air and vessel, shall, in respect of inter-State supply, generate the e-way bill on the basis of invoice or bill of supply or delivery challan, as the case may be, and may also generate a consolidated e-way bill on the common portal prior to the movement of goods [Rule 138(7)].

- (c) It is mandatory to generate e-way bill in all cases where the value of consignment of goods being transported is more than ₹ 50,000/- and it is not otherwise exempted in terms of rule 138(14). If e-way bills, wherever required, are not issued in accordance with the provisions contained in rule 138, the same will be considered as contravention of rules.

As per section 122(1)(xiv), a taxable person who transports any taxable goods without the cover of specified documents (e-way bill is one of the specified documents) shall be liable to a penalty of ₹ 10,000/- or tax sought to be evaded (wherever applicable) whichever is greater. Moreover, as per section 129(1), where any person transports any goods or stores any goods while they are in transit in contravention of the provisions

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of this Act or the Rules made thereunder, all such goods and conveyance used as a means of transport for carrying the said goods and documents relating to such goods and conveyance shall be liable to detention or seizure.

Question 6

Power Electricals Ltd., a registered supplier of air-conditioners, is required to send from Mumbai (Maharashtra), a consignment of parts of air-conditioner to be replaced under warranty at various client locations in Gujarat. The value of consignment declared in delivery challan accompanying the goods is ₹ 70,000. Power Electricals Ltd. claims that since movement of goods to Gujarat is caused due to reasons other than supply, e-way bill is not mandatorily required to be generated in this case.

You are required to examine the technical veracity of the claim made by Power Electricals Ltd. (Old SM)

Answer 6

The goods to be moved to another State for replacement under warranty is not a 'supply'. However, rule 138(1), inter alia, stipulates that every registered person who causes movement of goods of consignment value exceeding ₹ 50,000:

- (i) in relation to a supply; or
- (ii) for reasons other than supply; or
- (iii) due to inward supply from an unregistered person, shall, generate an electronic-way bill (E-way Bill) before commencement of such movement.

CBIC vide FAQs on E-way Bill has also clarified that even if the movement of goods is caused due to reasons others than supply [including replacement of goods under warranty], e-way bill is required to be issued.

Thus, in the given case, since the consignment value exceeds ₹ 50,000, e-way bill is required to be mandatorily generated. Therefore, the claim of Power Electricals Ltd. that e-way bill is not mandatorily required to be generated as the movement of goods is caused due to reasons other than supply, is not correct.

Question 7

Beauty Cosmetics Ltd. has multiple wholesale outlets of cosmetic products in Mumbai, Maharashtra. It receives an order for cosmetics worth ₹ 1,20,000 (inclusive of GST leviable @ 18%) from Prasannaa, owner of a retail cosmetic store in Delhi. While checking the stock, it is found that order worth ₹ 55,000 can be fulfilled from the company's Dadar (Mumbai) store and remaining goods worth ₹ 65,000 can be sent from its Malad (Mumbai) store. Both the stores are instructed to issue separate invoices for the goods sent to Prasannaa. The goods are transported to Prasannaa in Delhi, in a single conveyance owned by Radhey Transporters. You are required to advise Beauty Cosmetics Ltd. with regard to issuance of e-way bill(s). (Old SM)

Answer 7

Beauty Cosmetics Ltd. would be required to prepare two separate e-way bills since each invoice value exceeds ₹ 50,000 and each invoice is considered as one consignment for the purpose of generating e-way bills.

The FAQs on E-way Bill issued by CBIC clarify that if multiple invoices are issued by the supplier to one recipient, that is, for movement of goods of more than one invoice of same consignor and consignee, multiple e-way bills have to be generated. In other words, for each invoice, one e-way bill has to be generated, irrespective of the fact whether same or different consignors or consignees are involved. Multiple invoices cannot be clubbed to generate one e-way bill. However, after generating all these e-way bills, one consolidated e-way bill can be prepared for transportation purpose, if goods are going in one vehicle.

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Question 8

Who is required to maintain books of accounts and at which place in terms of Section 35 read with relevant rules? (New SM)

Answer 8

Every registered person shall keep and maintain, his books of accounts at his principal place of business and books of account relating to additional place of business as mentioned in the certificate of registration. Where more than one place of business is specified in the certificate of registration, the accounts relating to each place of business shall be kept at such places of business.

Question 9

Mr. Sky is engaged in the business of trading of mobiles. He is eligible for composition scheme and has opted for the same. He seeks your advice for records which are not required to be maintained by him as composition taxable person. (New SM)

Answer 9

A supplier who has opted for composition scheme is not required to maintain records relating to;

- (c) Stock of goods: Accounts of stock in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost stolen, destroyed, written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.
- (d) Details of tax: Account, containing the details of tax payable (including tax payable under reverse charge), tax collected and paid, input tax, input tax credit claimed, together with a register of tax invoice, credit notes, debit notes, delivery challan issued or received during any tax period.

Thus, Mr. Sky is not required to maintain above mentioned records.

Question 10

Mr. Harsh Manjula is engaged in the business of works contract services and request your guidance as to specific records required to be maintained by him under GST law, if any. (New SM)

Answer 10

Mr. Harsh Manjula, executing works contract shall keep separate accounts for works contract showing

- the names and addresses of the persons on whose behalf the works contract is executed;
- description, value and quantity (wherever applicable) of goods/services received for the execution of works contract;
- description, value and quantity (wherever applicable) of goods/services utilized in the execution of works contract;
- the details of payment received in respect of each works contract; and
- the names and addresses of suppliers from whom he received goods or services.

Question 11

Chill Chain Cold is operating cold storage warehouse and seeks your guidance on the GST accounts and records to be maintained by them in terms of Section 35. (New SM)

Answer 11

Chill Chain Cold shall maintain records of the consigner, consignee and other

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relevant details of the goods in the prescribed manner.

Chill Chain Cold shall also maintain books of accounts with respect to the period for which particular goods remain in the warehouse, including the particulars relating to dispatch, movement, receipt, and disposal of such goods.

Chill Chain Cold shall store the goods in such manner that they can be identified item-wise and owner-wise and shall facilitate any physical verification or inspection by the proper officer on demand.

Question 12

Mr. X is of the view that records are to be mandatorily maintained manually only. You are required to examine the view taken by Mr. X? (New SM)

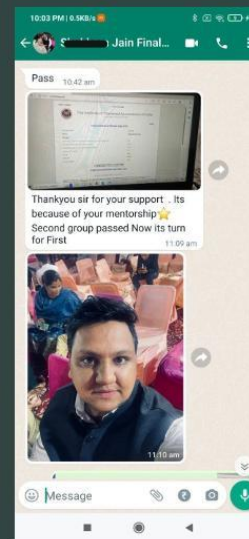
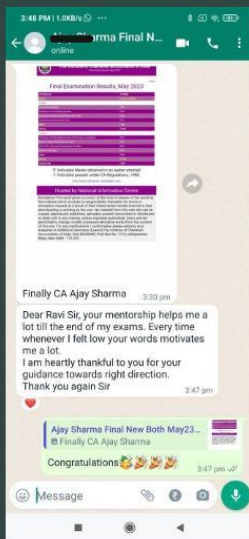
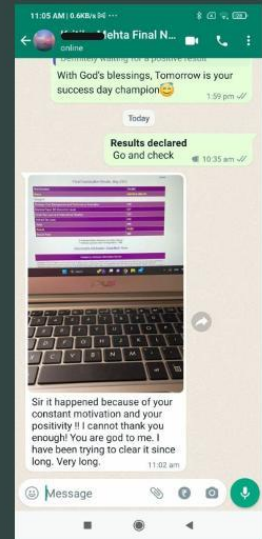
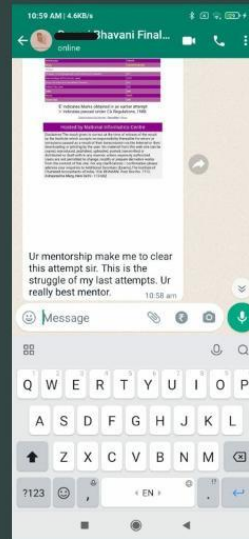
Answer 12

The view taken by Mr. X is not valid in law. Books of account include any electronic form of data stored on any electronic device. The registered person may keep and maintain such accounts and other particulars in electronic form stored on any electronic device and record so maintained shall be authenticated by means of a digital signature. The registered person maintaining electronic records shall produce, on demand, the relevant records or documents, duly authenticated by him, in hard copy or in any electronically readable format.

Where the accounts and records are stored electronically by any registered person, he shall, on demand, provide the details of such files, passwords of such files and explanation for codes used, where necessary, for access and any other information which is required for such access along with a sample copy in print form of the information stored in such files.

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Paper 3 - Taxation

Chapter 12

E-Way Bill

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q1		Q2							
RTP								Q3				
Q & A												
MTP	Q13				Q7, Q8		Q10 , Q14		Q15		Q9, Q12	Q5, Q11
PYP				Q18	Q4	Q17			Q3	Q19	Q1, Q2	Q20
RTP			Q22, Q23, Q24	Q6					Q16			Q21

Section - A

MULTIPLE CHOICE QUESTIONS (MCQS)

1. M/s Gyaan Publishing House, registered under GST in Delhi, is engaged in printing and selling of books as well as trading of stationery items. He has provided following information of a consignment which is to be supplied to Mumbai: -

- (i) Taxable value of supplies indicated on tax invoice: ₹ 35,000/-
(ii) Value of exempted supplies: ₹ 8,000/-
(iii) Value of goods to be sent to job worker on delivery challan: ₹ 15,000/-
Calculate the consignment value for the purpose of generating e-way bill for inter-State supply of goods. Assume rate of tax on taxable goods to be 18%.

- (a) ₹ 35,000/-
(b) ₹ 50,000/-
(c) ₹ 56,300/-
(d) ₹ 64,300/- (MTP 2 Marks March '19)

Ans: (c)

2. Which document is required in case of movement of goods of consignment value of ₹ 1,05,000 for reasons other than supply: -

- (a) Bill of supply
(b) Receipt Voucher
(c) Payment voucher
(d) E-way bill (MTP 2 Mark, Oct'20)

Ans: (d)

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3. ABC Ltd. generated e-way bill on 12th February at 14.00 hrs. It used over-dimensional cargo for a distance of 100 km. When the validity period of the e-way bill will expire?

- (a) Midnight of 13th-14th February
- (b) Midnight of 17th-18th February
- (c) At 14.00 hrs. of 13th February
- (d) At 14.00 hrs. of 14th February (RTP Nov '21)

Ans: (b)

Question & Answers

Question 1

Decide with reason whether e-way bill is required to be issued under CGST Act, 2017 in the following independent cases:

SV Electricals Ltd., a registered supplier of electronic goods, is required to send from Delhi, a consignment of parts of LED TV to be replaced under warranty at various client locations in Gurugram (Haryana). The value of consignment declared in delivery challan accompanying the goods is ₹ 65,000. SV Electricals Ltd. claims that since movement of goods to Gurugram (Haryana) is caused due to reasons other than supply, e-way bill is not mandatorily required to be generated in this case. You are required to examine the technical veracity of the claim made by SV Electricals Ltd.

Tree Ltd. registered in Kerala, sends goods to its job worker Woods & Co. in Tamil Nadu, which is also registered under GST. Value of the consignment was ₹ 37,500 (including GST). (PYP 4 Marks May '23)

Answer 1

The claim made by SV Electricals Ltd. is not correct. SV Electricals Ltd. needs to issue e-way bill.

E-way bill is mandatorily required to be issued whenever there is a movement of goods for reasons other than supply, provided the consignment value exceeds ₹ 50,000.

In case of inter-State transfer of goods by principal to job-worker, e-way bill is mandatorily required to be issued irrespective of the value of the consignment.

Thus, e-way bill is required to be issued in case of transfer of goods by Tree Ltd. registered in Kerala to Woods & Co. in Tamil Nadu.

Question 2

When goods are transferred by principal to job worker, there is no need to issue e-way bill. Comment on the validity of the above statement with reference to GST Laws. (PYP 2 Marks May '23)

Answer 2

The said statement is not valid.

When goods are transferred by principal to job worker, e-way bill is required to be mandatorily issued:

- in case of intra-State transfer, if consignment value exceeds ₹ 50,000, and
- in case of inter-State transfer, irrespective of the value of the consignment.

Question 3

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Paper 3 - Taxation

One consolidated e-way bill can be generated for multiple invoices". Comment on the validity of the above statement with reference to GST law. (PYP 3 Marks May'22)

Answer 3

The statement is invalid.

Multiple invoices cannot be clubbed to generate one e-way bill. If multiple invoices are issued by the supplier to recipient, for movement of such goods, multiple e-way bills have to be generated.

Thus, for each invoice, one e-way bill has to be generated, irrespective of the fact whether same or different consignors or consignees are involved.

However, after generating all these e-way bills, one consolidated e-way bill can be prepared for transportation purpose, if goods are going in one vehicle.

Question 4

"It is mandatory to furnish the details of conveyance in Part-B of E-way Bill. Comment on the validity of the above statement with reference to provisions of E-Way Bill under CGST Rules, 2017. (PYP 3 Marks, Nov'20)

Answer 4

The given statement is partially valid.

An e-way bill is valid for movement of goods by road only when the information in Part-B

– which includes details of conveyance - is furnished.

However, the details of conveyance may not be furnished in Part-B of the e-way bill where the goods are transported for a distance of up to 50 km within the State/Union territory:

- (a) from the place of business of the consignor to the place of business of the transporter for further transportation or
- (b) from the place of business of the transporter finally to the place of business of the consignee.

Question 5

Mr. Shyam Nath, a registered person has caused movement of goods of consignment value exceeding ₹ 50,000 in relation to a supply and thus, generated e-way bill. However, after generation of e-way bill, he found a mistake in the e-way bill and wants to edit it. You are required to advise Mr. Shyam Nath whether he can do so with the help of relevant provisions. (MTP 4 Marks Sep '23)

Answer 5

If there is a mistake, incorrect or wrong entry in the e-way bill, then it cannot be edited or corrected. Only option is cancellation of e-way bill within 24 hours of generation and generate a new one with correct details.

Thus, in view of the above-mentioned provisions, Mr. Shyam Nath cannot edit the e-way bill. However, he can cancel the e-way bill within 24 hours of generation and generate a new one with correct details.

Question 6

Discuss the correctness of the following statements:-

- (i) **Once generated, an e-way bill cannot be cancelled.**
- (ii) **E-way bill generated in one State is valid in another State. (RTP Nov '19)**

Answer 6

- (i) The said statement is partially correct. Where an e-way bill has been generated, but goods are either not transported at all or are not transported as per the details furnished in the e-way bill, the e-way bill may be cancelled electronically on the common portal within 24 hours of generation of the e-way bill.

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However, an e-way bill cannot be cancelled if it has been verified in transit in accordance with the provisions of rule 138B of the CGST Rules, 2017.

- (ii) The said statement is correct. The e-way bill generated under Goods and Services Tax Rules of any State or Union territory shall be valid in every State and Union territory.

Question 7

Sindhi Toys Manufacturers, registered in Punjab, sold electronic toys to a retail seller in Gujarat, at a value of ₹ 48,000 (excluding GST leviable @ 18%). Now, it wants to send the consignment of such toys to the retail seller in Gujarat. You are required to advise Sindhi Toys Manufacturers whether e-way bill is mandatorily required to be generated in respect of such movement of goods? (MTP 5 Marks Oct 21)

Answer 7

Rule 138(1) of the CGST Rules, 2017 provides that e-way Bill is mandatorily required to be generated if the goods are moved, *inter alia*, in relation to supply and the consignment value exceeds ₹ 50,000. Further, explanation 2 to rule 138(1) stipulates that the consignment value of goods shall be the value, determined in accordance with the provisions of section 15, declared in an invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment and also includes CGST, SGST/UTGST, IGST and cess charged, if any, in the document and shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Accordingly, in the given case, the consignment value will be as follows:

$$= ₹ 48,000 \times 118\%$$

$$= ₹ 56,640.$$

Since the movement of goods is in relation to supply of goods and the consignment value exceeds ₹ 50,000, e-way bill is mandatorily required to be issued in the given case.

Question 8

When is an e-way bill required to be generated? (MTP 5 Marks May '20 & April 21)

Answer 8

As per rule 138 of the CGST Rules, 2017, whenever there is a movement of goods of consignment value exceeding Rs. 50,000:

- (i) in relation to a supply; or
- (ii) for reasons other than supply; or
- (iii) due to inward supply from an unregistered person, e-way bill needs to be generated prior to the commencement of transport of goods.

Further, in the following situations, e-way bill needs to be issued even if the value of the consignment is less than Rs. 50,000:

- (i) Where goods are sent by a principal located in one State/ Union territory to a job worker located in any other State/Union territory, the e-way bill shall be generated either by the principal or the job worker, if registered, irrespective of the value of the consignment.
- (ii) Where specified handicraft goods are transported from one State/ Union territory to another State/ Union territory by a person who has been exempted from the requirement of obtaining registration under section 24 of the CGST Act, 2017, the e-way bill shall be generated by the said person irrespective of the value of the consignment.

Question 9

Yash & Co., a manufacturer and supplier of plastic goods, is registered under

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Paper 3 - Taxation

GST in the State of Maharashtra. Yash & Co. sold plastic goods to a retail seller in Punjab, at a value of ₹ 43,000 (excluding GST leviable @ 18%). Now, it wants to send the consignment of such plastic goods to the retail seller in Punjab.

You are required to examine whether e-way bill is mandatorily required to be generated in respect of such movement of goods as per the provisions of the GST law. (MTP 4 Marks April '23)

Answer 9

E-way bill is mandatorily required to be generated whenever there is a movement of goods of consignment value exceeding ₹ 50,000, inter alia, in relation to a supply. Consignment value of goods, inter alia, includes the central tax, State/Union territory tax, integrated tax and cess charged, if any. The consignment value of goods, in the given case, will be ₹ 50,740 [₹ 43,000 + (₹ 43,000 × 18%)].

Thus, in the given case, since the movement of goods is in relation to supply of goods and the consignment value exceeds ₹ 50,000, e-way bill is mandatorily required to be generated in respect of movement of goods from Maharashtra to Punjab.

Question 10

Brief explain when is it not mandatory to furnish the details of conveyance in Part-B of the e-way bill? (MTP 5 Marks, April'21)

Answer 10

E-way bill is valid for movement of goods by road only when the information in Part - B is furnished in terms of explanation 2 to rule 138(3) of the CGST Rules, 2017. However, details of conveyance may not be furnished in Part-B of the e-way bill where the goods are transported for a distance of up to 50 km within the State/Union territory:

- from the place of business of the consignor to the place of business of the transporter for further transportation or
- from the place of business of the transporter finally to the place of business of the consignee.

Question 11

Explain the meaning of consignment value of goods. (MTP 5 Marks Oct'23)

Answer 11

Consignment value of goods shall be the value:

- determined in accordance with the provisions of section 15,
- declared in an invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment and
- also includes the Central tax, State or Union territory tax, integrated tax and cess charged, if any, in the document and
- shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Question 12

Explain the following terms regarding e-way bill under the relevant CGST Rules:

- (i) **Consolidated e-way bill in case of road transport.**
- (ii) **Acceptance/rejection of e-way bill. (MTP 6 Marks April '23)**

Answer 12

(i) Consolidated e-way bill in case of road transport

Consolidated e-way bill (EWB) is a single document containing the details of multiple e-way bills (even with different validity periods) in respect of multiple consignments of various consignors and consignees being transported in a single vehicle/ conveyance generated by the transporter to carry a single

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document instead of carrying separate documents for each consignment in the conveyance.

(ii) Acceptance/rejection of e-way bill

The details of the e-way bill generated shall be made available to supplier (if registered), where the information in Part A of e-way bill is furnished by recipient/transporter, or recipient (if registered), where the information in Part A of e-way bill is furnished by supplier/transporter, who shall communicate his acceptance or rejection of the consignment covered by the e-way bill.

If such person does not communicate the acceptance/rejection within 72 hours from the time of the details being made available to him on the common portal or the time of delivery of goods, whichever is earlier, it will be deemed that he has accepted the details.

Question 13

Whether action can be taken for transportation of goods without valid documents or if goods are attempted to be removed without proper record in books? If yes, explain the related provisions under the CGST Act, 2017. (MTP 5 Marks March '18)

Answer 13

Yes, action can be taken for transportation of goods without valid documents or if goods are attempted to be removed without proper record in books. If any person transports any goods or stores any such goods while in transit without the documents prescribed under the Act (i.e. invoice and a declaration) or supplies or stores any goods that have not been recorded in the books or accounts maintained by him, then such goods shall be liable for detention along with any vehicle on which they are being transported [Section 129 of CGST Act].

Where owner comes forward: - Such goods shall be released on payment of the applicable tax and penalty equal to 100% of the tax payable on such goods or upon furnishing of security equivalent to the said amount.

In case of exempted goods, penalty is 2% of value of goods or Rs. 25,000/- whichever is less.

Where owner does not come forward: - Such goods shall be released on payment of the applicable tax and penalty equal to 50% of value of goods reduced by the tax amount paid thereon or upon furnishing of security equivalent to the said amount.

In case of exempted goods, penalty is 5% of value of goods or Rs. 25,000/- whichever is lesser.

Question 14

Orip Electricals Ltd., a registered supplier of air-conditioners, is required to send from Mumbai (Maharashtra), a consignment of parts of air-conditioner to be replaced under warranty at various client locations in Gujarat. The value of consignment declared in delivery challan accompanying the goods is Rs. 60,000. Orip Electricals Ltd. claims that since movement of goods to Gujarat is caused due to reasons other than supply, e-way bill is not mandatorily required to be generated in this case.

You are required to examine the technical veracity of the claim made by Orip Electricals Ltd. (MTP 4 Marks March '21 & Nov '21, Oct '22,)

Answer 14

The goods to be moved to another State for replacement under warranty is not a 'supply'. However, rule 138(1) of the CGST Act, 2017, *inter alia*, stipulates that every registered person who causes movement of goods of consignment value exceeding Rs. 50,000:

- (i) in relation to a supply; or
- (ii) for reasons other than supply; or

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Paper 3 - Taxation

(iii) due to inward supply from an unregistered person, shall, generate an electronic way bill (E-way Bill) before commencement of such movement.

CBIC vide FAQs on E-way Bill has also clarified that even if the movement of goods is caused due to reasons others than supply [including replacement of goods under warranty], e-way bill is required to be issued.

Thus, in the given case, since the consignment value exceeds Rs. 50,000, e-way bill is required to be mandatorily generated. Therefore, the claim of Orip Electricals Ltd. that e-way bill is not mandatorily required to be generated as the movement of goods is caused due to reasons other than supply, is not correct.

Question 15

Nature Cosmetics Ltd. has multiple wholesale outlets of cosmetic products in Mumbai, Maharashtra. It receives an order for cosmetics worth ₹ 1,20,000 (inclusive of GST leviable @ 18%) from Pankh, owner of a retail cosmetic store in Delhi. While checking the stock, it is found that order worth ₹ 55,000 can be fulfilled from the company's Dadar (Mumbai) store and remaining goods worth ₹ 65,000 can be sent from its Malad (Mumbai) store. Both the stores are instructed to issue separate invoices for the goods sent to Pankh. The goods are transported to Pankh in Delhi, in a single conveyance owned by R Transporters. You are required to advise Nature Cosmetics Ltd. with regard to issuance of e-way bill(s). (MTP 4 Marks March 22)

Answer 15

Nature Cosmetics Ltd. would be required to prepare two separate e-way bills since each invoice value exceeds ₹ 50,000 and each invoice is considered as one consignment for the purpose of generating e-way bills.

The FAQs on E-way Bill issued by CBIC clarify that if multiple invoices are issued by the supplier to one recipient, that is, for movement of goods of more than one invoice of same consignor and consignee, multiple e-way bills have to be generated. In other words, for each invoice, one e-way bill has to be generated, irrespective of the fact whether same or different consignors or consignees are involved. Multiple invoices cannot be clubbed to generate one e-way bill. However, after generating all these e-way bills, one consolidated e-way bill can be prepared for transportation purpose, if goods are going in one vehicle.

Question 16

Mr. Shambhu, a trader registered under GST in Delhi is engaged in wholesale business of toys for kids. Mr. Nandi registered under GST in Patiala, a regular return filer supplies toys in bulk to Mr. Shambhu for selling to end consumers. Mr. Shambhu paying tax in regular scheme in Delhi, has not filed GSTR-3B for last 2 months. Mr. Nandi wants to generate e-way bill for toys amounting to ₹ 5,00,000 to be supplied to Mr. Shambhu. Also Mr. Narayan from Jammu approached Mr. Shambhu for purchasing toys amounting to ₹ 75,000 for the purpose of return gift on his son's first birthday party. Shambhu wants to generate an e-way bill in respect of an outward supply of goods to Mr. Narayan. Examine with reference to the provisions under GST law, whether Mr. Nandi and Mr. Shambhu can generate e-way bill? (RTP May '22)

Answer 16

Rule 138E of the CGST Rules, 2017 contains provisions pertaining to blocking of e-way bill generation facility, i.e. disabling the generation of e-way bill.

A user will not be able to generate e-way bill for a GSTIN if the said GSTIN is not eligible for e-way bill generation as per rule 138E.

Rule 138E as amended vide Notification No. 15/2021 CT dated 18.05.2021 provides that blocking of GSTIN for e-way bill generation would only be for the defaulting supplier GSTIN and not for the defaulting Recipient or Transporter GSTIN.

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In terms of rule 138E, a person paying tax under regular scheme who has not furnished the returns for a consecutive period of 2 tax periods is considered as a defaulting person. Suspended GSTIN cannot generate e-way bill as supplier. However, the suspended GSTIN can get the e-way bill generated as recipient or as transporter.

In other words, e-way bill generation facility is blocked only in respect of any outward movement of goods of the registered person who is not eligible for e-way bill generation as per rule 138E. E-way bills can be generated in respect of inward supplies of said registered person.

Thus, applying the above provisions, there will be no restriction in generating e-way Bill by Mr. Nandi as Mr. Nandi who is making outward movement of goods is a regular return filer.

E-way bill generation is blocked in case of movement of goods made by Mr. Shambhu to Mr. Narayan as it's an outward movement of goods of Mr. Shambhu who has not filed GSTR-3B for past 2 months.

Question 17

Agni Ltd. a registered supplier wishes to transport cargo by road between two cities situated at a distance of 368 kilometers. Calculate the validity period of e-way bill under rule 138(10) of CGST Rules, 2017 for transport of the said cargo, if it is over dimensional cargo or otherwise. (PYP 3 Marks, Jan'21)

Answer 17

The validity period of e-way bill under rule 138(10) of the CGST Rules, 2017 for transport of cargo by road between two cities situated at a distance of 368 km is as under:

- (i) If it is over dimensional cargo: the validity period of the e-way bill is one day from relevant date up to 20 km and one additional day for every 20 km or part thereof thereafter.

Thus, validity period in given case:

= 1 day + 18 days

= 19 days

- (ii) If it is a cargo other than over dimensional cargo: the validity period of the e-way bill is one day from relevant date up to 100 km and one additional day for every 100 km or part thereof thereafter.

Thus, validity period in given case:

= 1 day + 3 days

= 4 days

Question 18

Mr. Shah, a consignor is required to move goods from Ahmedabad (Gujarat) to Naiad (Gujarat). He appoints Mehta Transporter for movement of goods. Mehta Transporter moves the goods from Ahmedabad (Gujarat) to Knead (Gujarat). For completing the movement of goods from Knead (Gujarat) to Naiad (Gujarat), Mehta Transporter now hands over the goods to Parikh Transporter. Explain the procedure regarding e-way bill to be followed by consignor and transporter as per provisions of GST law and rules made thereunder. (PYP 5 Marks, Nov'19)

Answer 18

In the given scenario, only one e-way bill is required to be issued.

Part A can be filled by either Mr. Shah or recipient of goods or Mehta Transporter on the appropriate authorization. Where the goods are transferred from one conveyance to another, the consignor or the recipient, who has provided information in Part A, or the transporter shall, before such transfer and further movement of goods, update the details of conveyance in the e-way bill on the common portal in Part B.

Paper 3 - Taxation

Thus, on reaching Knead, Mr. Shah or the recipient of the goods, who has filled Part A of the e-way bill, or Mehta Transporter can, before the transfer and further movement of goods, update the details of conveyance in Part B of the e-way bill.

Further, the consignor or the recipient, who has furnished the information in Part A, or the transporter, may assign the e-way bill number to another registered or enrolled transporter for updating the information in Part B for further movement of the consignment. Thus, on reaching Knead, Mr. Shah or the recipient of the goods, or Mehta Transporter can assign the said e-way bill to Parikh Transporter who will thereafter update the details of conveyance in Part B.

However, upon updating of the details of the conveyance by Parikh transporter in Part B, Mr. Shah or recipient, as the case may be, who has furnished the information in Part A shall not be allowed to assign the e-way bill number to another transporter.

Question 19

M/s Sakura Enterprises made an inter-State supply of taxable goods valued at ₹ 47,500 and exempt goods valued at ₹ 2,000. Rate of IGST for taxable supply was 6%. Determine, with brief reasons, whether e-way bill generation is mandatory for the above supply made by M/s Sakura Enterprises. (PYP 2 Marks Nov '22)

Answer 19

In the given case, consignment value of goods (including GST and excluding value of exempt supply) is ₹ 50,350 ($47,500 \times 106\%$).

Since there is a movement of goods of consignment value exceeding ₹ 50,000, M/s Sakura Enterprises is mandatorily required to issue e-way bill.

Question 20

Decide with reason whether e-way bill is required to be issued under CGST Act, 2017 in the following independent cases:

- Square Ltd., registered in Andhra Pradesh, sends goods to its job worker Cube & Co. in Karnataka, which is also registered under GST. Value of the consignment was ₹ 45,000 (including GST). (2 Marks July 21)**
- Mr. Bheeshma of Telangana started doing business in notified handicraft products as a casual taxable person. He got his first order of ₹ 30,000 from Tamil Nadu which he transports. He is not registered under GST since he has a threshold limit of ₹ 20 lakh. (PYP 2 Marks July 21)**

Answer 20

- E-way bill is mandatorily required to be issued in case of inter-State transfer of goods by principal to job-worker, irrespective of the value of the consignment.

In view of the same, e-way is mandatorily required to be issued in the given case.

- E-way bill is mandatorily required to be issued in case of inter-State transfer of handicraft goods by a person exempted from obtaining registration.

In view of the same, e-way bill is mandatorily required to be issued in the present case.

Question 21

Mr. Shyam Nath, a registered person has caused movement of goods of consignment value exceeding ₹ 50,000 in relation to a supply and thus, generated e-way bill. However, after generation of e-way bill, he found a mistake in the e-way bill and wants to edit it. You are required to advise Mr. Shyam Nath whether he can do so with the help of relevant provisions. (RTP Nov '23,)

Answer 21

Paper 3 - Taxation

If there is a mistake, incorrect or wrong entry in the e-way bill, then it cannot be edited or corrected. Only option is cancellation of e-way bill within 24 hours of generation and generate a new one with correct details.

Thus, in view of the above-mentioned provisions, Mr. Shyam Nath cannot edit the e-way bill. However, he can cancel the e-way bill within 24 hours of generation and generate a new one with correct details.

Question 22

Sindhi Toys Manufacturers, registered in Punjab, sold electronic toys to a retail seller in Gujarat, at a value of ₹ 48,000 (excluding GST leviable @ 18%). Now, it wants to send the consignment of such toys to the retail seller in Gujarat. You are required to advise Sindhi Toys Manufacturers whether e-way bill is mandatorily required to be generated in respect of such movement of goods? (RTP May'19)

Answer 22

Rule 138(1) of the CGST Rules, 2017 provides that e-way Bill is mandatorily required to be generated if the goods are moved, *inter alia*, in relation to supply and the consignment value exceeds ₹ 50,000. Further, explanation 2 to rule 138(1) stipulates that the consignment value of goods shall be the value, determined in accordance with the provisions of section 15, declared in an invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment and also includes CGST, SGST/UTGST, IGST and cess charged, if any, in the document and shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Accordingly, in the given case, the consignment value will be as follows:

$$= ₹ 48,000 \times 118\%$$

$$= ₹ 56,640.$$

Since the movement of goods is in relation to supply of goods and the consignment value exceeds ₹ 50,000, e-way bill is mandatorily required to be issued in the given case.

Question 23

When is an e-way bill required to be generated? (PYP 5 Marks May'19)

Answer 23

As per rule 138 of the CGST Rules, 2017, whenever there is a movement of goods of consignment value exceeding Rs. 50,000:

- (iv) in relation to a supply; or
- (v) for reasons other than supply; or
- (vi) due to inward supply from an unregistered person, e-way bill needs to be generated prior to the commencement of transport of goods.

Further, in the following situations, e-way bill needs to be issued even if the value of the consignment is less than Rs. 50,000:

- (iii) Where goods are sent by a principal located in one State/ Union territory to a job worker located in any other State/Union territory, the e-way bill shall be generated either by the principal or the job worker, if registered, irrespective of the value of the consignment.
- (iv) Where specified handicraft goods are transported from one State/ Union territory to another State/ Union territory by a person who has been exempted

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from the requirement of obtaining registration under section 24 of the CGST Act, 2017, the e-way bill shall be generated by the said person irrespective of the value of the consignment.

Question 24

Orip Electricals Ltd., a registered supplier of air-conditioners, is required to send from Mumbai (Maharashtra), a consignment of parts of air-conditioner to be replaced under warranty at various client locations in Gujarat. The value of consignment declared in delivery challan accompanying the goods is Rs. 60,000. Orip Electricals Ltd. claims that since movement of goods to Gujarat is caused due to reasons other than supply, e-way bill is not mandatorily required to be generated in this case.

You are required to examine the technical veracity of the claim made by Orip Electricals Ltd. (RTP May'19)

Answer 24

The goods to be moved to another State for replacement under warranty is not a 'supply'. However, rule 138(1) of the CGST Act, 2017, *inter alia*, stipulates that every registered person who causes movement of goods of consignment value exceeding Rs. 50,000:

- (iv) in relation to a supply; or
- (v) for reasons other than supply; or
- (vi) due to inward supply from an unregistered person, shall, generate an electronic way bill (E-way Bill) before commencement of such movement.

CBIC vide FAQs on E-way Bill has also clarified that even if the movement of goods is caused due to reasons others than supply [including replacement of goods under warranty], e-way bill is required to be issued.

Thus, in the given case, since the consignment value exceeds Rs. 50,000, e-way bill is required to be mandatorily generated. Therefore, the claim of Orip Electricals Ltd. that e-way bill is not mandatorily required to be generated as the movement of goods is caused due to reasons other than supply, is not correct.

Question 25

Nature Cosmetics Ltd. has multiple wholesale outlets of cosmetic products in Mumbai, Maharashtra. It receives an order for cosmetics worth ₹ 1,20,000 (inclusive of GST leviable @ 18%) from Pankh, owner of a retail cosmetic store in Delhi. While checking the stock, it is found that order worth ₹ 55,000 can be fulfilled from the company's Dadar (Mumbai) store and remaining goods worth ₹ 65,000 can be sent from its Malad (Mumbai) store. Both the stores are instructed to issue separate invoices for the goods sent to Pankh. The goods are transported to Pankh in Delhi, in a single conveyance owned by R Transporters. You are required to advise Nature Cosmetics Ltd. with regard to issuance of e-way bill(s). (RTP May'19)

Answer 25

Nature Cosmetics Ltd. would be required to prepare two separate e-way bills since each invoice value exceeds ₹ 50,000 and each invoice is considered as one consignment for the purpose of generating e-way bills.

The FAQs on E-way Bill issued by CBIC clarify that if multiple invoices are issued by the supplier to one recipient, that is, for movement of goods of more than one invoice of same consignor and consignee, multiple e-way bills have to be generated. In other words, for each invoice, one e-way bill has to be generated, irrespective of the fact whether same or different consignors or consignees are involved. Multiple invoices cannot be clubbed to generate one e-way bill. However, after generating all these e-way bills, one consolidated e-way bill can be prepared for transportation purpose, if goods are going in one vehicle.

Paper 3 - Taxation

Section – B

Question 1

What are the documents and devices to be carried by person-in-charge of conveyance under rule 138A of CGST Rules, 2017? (New SM)

Answer 1

The person-in-charge of a conveyance has to carry -

- (a) the invoice or bill of supply or delivery challan, as the case may be; and
- (b) a copy of the e-way bill in physical form or the e-way bill number in electronic form or mapped to a Radio Frequency Identification Device embedded on to the conveyance [except in case of movement of goods by rail or by air or vessel] in such manner as may be notified by the Commissioner

Question 2

Explain the meaning of consignment value of goods. (New SM)

Answer 2

Consignment value of goods shall be the value:

- determined in accordance with the provisions of section 15,
- declared in an invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment and
- also includes the Central tax, State or Union territory tax, integrated tax and cess charged, if any, in the document and
- shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Question 3

Mr. X, a registered person has caused movement of goods of consignment value exceeding ` 50,000 in relation to a supply and thus, generated e-way bill. However, after generation of e-way bill, he found a mistake in the e-way bill and wants to edit it. You are required to advise Mr. X whether he can do so with the help of relevant provisions?

Answer 3

If there is a mistake, incorrect or wrong entry in the e-way bill, then it cannot be edited or corrected. Only option is cancellation of e-way bill within 24 hours of generation and generate a new one with correct details.

Thus, in view of the above-mentioned provisions, Mr. X cannot edit the e-way bill. However, he can cancel the e-way bill within 24 hours of generation and generate a new one with correct details.

Question 4

Talli Lal, a registered person, has transported alcoholic liquor for human consumption of consignment value of ` 1,50,000 from Delhi to Haryana. He has not generated e-way bill for the same. You are required to examine the correctness of action taken by Talli Lal.

Answer 4

E-way bill is not required to be generated where the goods being transported are alcoholic liquor for human consumption.

Thus, the action of Talli Limited of not generating the e-way bill is correct in law.

Question 5

Dhananjay Associates registered in Gujarat deals in industrial grade iron and steel products. The proprietor of Dhananjay Associates sold TMT Iron bars (GST

Paper 3 - Taxation

applicable @18%) to a retailer in Maharashtra at a value of ` 40,000 (excluding GST). As per the agreement of sale, goods are to be delivered at the premises of retailer. The transportation cost of ` 7,000 has been charged separately to deliver the same to the retailer in Maharashtra. In the above scenario, determine whether an e-way bill is required to be issued under GST?

Answer 5

Consignment value of goods is the value determined in accordance with the provisions of section 15, and also includes the central tax, state or union territory tax, integrated tax and cess charged, if any, in the document.

Further, since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are to be added in the value of principal supply.

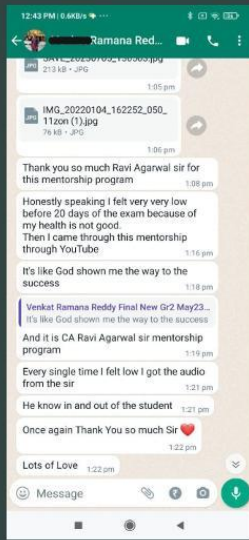
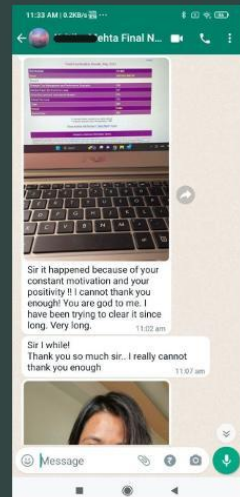
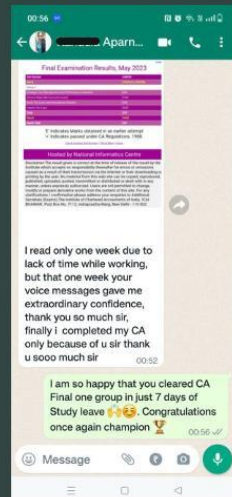
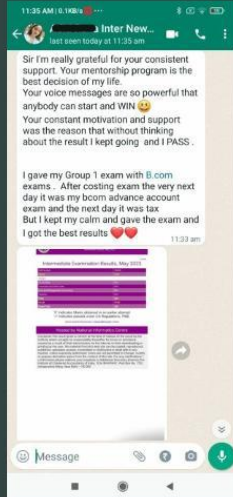
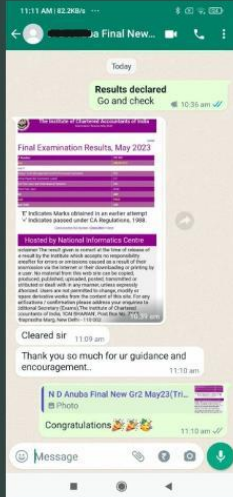
Accordingly, the value of supply as per section 15 in the given case would include the transportation cost in the invoice value i.e. 47,000 ($\text{` }40,000 + \text{` }7,000$).

Consignment value = $\text{` }47,000 \times 118\% = \text{` }55,460$.

Since the movement of goods is in relation to supply of goods and the consignment value exceeds $\text{` }50,000$, e-way bill is mandatorily required to be issued under GST in the given case.

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Paper 3 - Taxation

Chapter 13 Payment of Tax

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec'2 1	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP				Q2								Q1
Q & A												
MTP	Q10	Q7,Q8,Q9,Q17, Q18,Q19	Q11				Q1 3	Q16, Q20		Q27		
PYP	Q28	Q3,Q24	Q14	Q4	Q23					Q2, Q25	Q1, Q26	
RTP		Q21	Q15	Q6	Q12				Q22		Q5	

Section – A MULTIPLE CHOICE QUESTIONS (MCQS)

1. **Balance in electronic credit ledger can be utilized against payment of _.**
- output tax
 - interest
 - penalty
 - late fees **(MTP 1 Marks Oct '23)**

Ans: (a)

2. **What is the due date for payment of tax for a normal taxpayer?**
- Last day of the month to which payment relates
 - Within 10 days of the subsequent month
 - Within 20 days of the subsequent month
 - Within 15 days of the subsequent month **(MTP 1 Marks, Oct'19)**

Ans: (c)

Question & Answers

Question 1

“Rule 86A of the CGST Rules, 2017 provides that in certain specified circumstances, Commissioner on the basis of reasonable belief may not allow debit of an amount equivalent to such credit in electronic credit ledger.” State the grounds (as guided by CBIC) on which the reasons for such belief must be based on. (PYP 5 Marks May '23)

Answer 1

The reasons for such belief must be based on one or more of the following grounds:

- The credit is availed by the registered person on the invoices/debit notes issued by a supplier, who is found to be non-existent or is found not to be conducting any business from the place declared in registration.
- The credit is availed by the registered person on invoices/debit notes, without actually receiving any goods and/or services.

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Paper 3 - Taxation

- (3) The credit is availed by the registered person on invoices/debit notes, the tax in respect of which has not been paid to the Government.
- (4) The registered person claiming the credit is found to be non-existent or is found not to be conducting any business from the place declared in registration.
- (5) The credit is availed by the registered person without having any invoice/debit note or any other valid document for it.

Question 2

Rule 86B restricts the use of Input Tax Credit (ITC) available in the Electronic Credit Ledger for discharging output tax liability. List down the exceptions to the rule 86B. (PYP 5 Marks Nov '22)

Answer 2

Rule 86B of the CGST Rules, 2017 restricts the use of ITC available in the Electronic Credit Ledger for discharging output tax liability by a registered person. Exceptions to rule 86B are as follows:

- (1) Where the said person/proprietor/karta/managing director/any of its two partners, whole-time directors, members of Managing Committee of Associations or Board of Trustees, as the case may be, have paid more than ₹ 1 lakh as income tax in each of the last 2 financial years.
- (2) Where the registered person has received a refund of more than ₹ 1 lakh in the preceding FY on account of unutilised ITC in case of
 - (i) zero rated supplies made without payment of tax or
 - (ii) inverted duty structure.
- (3) Where the registered person has discharged his liability towards output tax through the electronic cash ledger for an amount which is in excess of 1% of the total output tax liability, applied cumulatively, upto the said month in the current FY.
- (4) Where the registered person is Government Department, Public Sector Undertaking, Local authority or Statutory body. Said restriction may be removed by Commissioner/ authorised officer after required verifications and safeguards.

Question 3

Ms. Jimmy wants to adjust input tax credit for payment of interest, penalty and payment of tax under reverse charge. Explain whether she can do so. (PYP 3 Marks, Nov'18)

Answer 3

The input tax credit as self-assessed in the return of a registered person shall be credited to his electronic credit ledger which may be used for making any payment towards output tax. "Output tax" inter alia excludes tax payable on reverse charge basis.

Thus, Ms. Jimmy cannot adjust input tax credit for payment of interest, penalty as also for payment of tax under reverse charge.

Question 4

State the items which are to be debited to electronic liability register of the taxable person under the CGST Act, 2017 and rules thereunder. (PYP 3 Marks, Nov'19)

Answer 4

The items to be debited to electronic liability register of the taxable person are as under:-

all amounts payable towards tax, interest, late fee and any other amount as per return filed;

1 Currently GST portal does not allow filing of returns without payment of tax.

Paper 3 - Taxation

- (a) all amounts payable towards tax, interest, penalty and any other amount determined in a proceeding by an Assessing authority or as ascertained by the taxable person;
- (b) the amount of tax and interest as a result of mismatch.
- (c) any interest amount that may accrue from time to time.

Note: Any three points may be mentioned out of the above mentioned four points.

Question 5

State the order in which every taxable person discharges his tax and other dues under GST law, as provided under section 49 of the CGST Act, 2017. (RTP May '23)

Answer 5

Section 49 of the CGST Act, 2017 stipulates that every taxable person shall discharge his tax and other dues under the GST law in the following order, namely:-

- (a) self-assessed tax, and other dues related to returns of previous tax periods;
- (b) self-assessed tax, and other dues related to the return of the current tax period;
- (c) any other amount payable under this Act or the rules made thereunder including the demand determined under section 73 or section 74.

Question 6

Mr. Ram Narayan, a registered supplier under GST, wants to first discharge his self-assessed tax liability for the current period before settling the dues for the previous tax period. Examine briefly whether he can do so?(RTP Nov '19)

Answer 6

As per section 49(8) of the CGST Act, 2017, the liability of a taxable person has to be discharged in a chronological order as under:-

- (a) self-assessed tax and other dues for the previous tax periods have to be discharged first;
- (b) the self-assessed tax and other dues for the current period have to be discharged next;
- (c) Once these two steps are exhausted, thereafter any other amount payable including demand determined under section 73 or section 74 of the CGST Act, 2017 to be discharged. In other words, the liability if any, arising out of demand notice and adjudication proceedings comes last.

This sequence has to be mandatorily followed.

Thus, in view of the above-mentioned provisions, Mr. Ram Narayan cannot discharge his self-assessed tax liability for the current period before settling the dues for the previous tax period.

Question 7

Raghav Ltd., have filed their GSTR-3B for the month of July, 2023 within the due date prescribed under Section 39 i.e. 20.08.2023. Post filing of the return, the registered person has noticed during September 2023 that tax dues for the month of July, 2023 have been short paid for ₹ 40,000. Raghav Ltd., has paid the above shortfall of ₹ 40,000, through GSTR-3B of September 2023, filed on 20.10.2023 [payment through Cash ledger - ₹ 30,000 and Credit ledger ₹ 10,000]. Examine the Interest payable under the CGST Act, 2017. What would be your Answer if, GSTR-3B for the month of July 2023 has been filed belatedly on 20.10.2023 and the self-assessed tax of ₹ 40,000/- has been paid on 20.10.2023 [payment through electronic cash ledger - ₹ 30,000 and electronic credit ledger ₹ 10,000]

Notes:

- There exists adequate balance in Electronic Cash & Credit ledger as on 31.07.2023 for the above short fall
- No other supply has been made nor tax payable for the month of July, 2023 other than ₹ 40,000/- missed out to be paid on forward charge basis
- Ignore the effect of leap year, if applicable in this case. (MTP 6 Marks April

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22)

Answer 7

Interest is payable under Section 50 of the CGST Act, 2017 in case of delayed payment of tax @ 18% per annum from the date following the due date of payment to the actual date of payment of tax.

As per proviso to sub-section (1) of Section 50, interest is payable on the net tax liability paid in cash, only if the return to be filed for a tax period under Section 39, has been filed after the due date to furnish such return.

In the above scenario, Raghav Ltd., has defaulted in making the payment for ₹ 40,000 on self- assessment basis in the return for the month of July, 2023.

Accordingly, interest is payable on the gross liability and proviso of sub-section 50(1) shall not be applicable.

Thus, the amount of interest payable by Raghav Ltd., is as under: - Period of delay = 21st August, 2023 to 20th October, 2023 = 60 days

Hence, amount of interest = ₹ 40,000 x 18% x 60/365 = ₹ 1,184

Alternatively, if Raghav Ltd., have filed the return for the month of July, 2023 on 20.10.2023, beyond the stipulated due date of 20.08.2023 and if the self-assessed tax for July, 2023 has been paid on 20.10.2023, Interest under proviso to Section 50(1) shall be payable on the tax paid through Electronic Cash Ledger only. Hence Interest is payable from 21st

August 2023 till 20th October 2023 = 60 days Amount of Interest = ₹ 30,000 x 18% x 60/365 = ₹ 888

Question 8

What is CIN? (MTP 2 Marks, Oct'18)

Answer 8

(v) CIN is challan Identification Number. It is generated by the banks indicating that the payment has been realized and credited to the appropriate government account against a generated challan

(vi) The new payment system benefits the taxpayer and the commercial tax department in the following ways:- Benefits to Taxpayer: -

- No more queues and waiting for making payments as payments can be made online 24 X 7.
- Electronically generated challan from GSTN common portal in all modes of payment and no use of manually prepared challan. Paperless transactions.
- Instant online receipts for payments made online.
- Tax consultants can make payments on behalf of the clients.
- Single challan form to be created online, replacing the three or four copy Challan.
- Greater transparency.

Benefits to the Commercial Tax Department:-

- Revenue will come earlier into the Government Treasury as compared to the old system.
- Logical tax collection data in electronic format.
- Speedy accounting and reporting.
- Electronic reconciliation of all receipts.
- Warehousing of digital challan.

Note – Any three points each may be mentioned for Tax payer and Commercial Tax Department.

Question 9

How does the new payment system benefit the taxpayer & the Commercial Tax Department? (MTP 3 Marks, Oct'18)

Answer 9

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- Logical tax collection data in electronic format.
- Speedy accounting and reporting.
- Electronic reconciliation of all receipts.
- Warehousing of digital challan.
- Note – Any three points each may be mentioned for Tax payer and Commercial Tax Department.

Question 10

What is an electronic cash ledger? Enumerate the modes of making deposit in the electronic cash ledger. (MTP 3 Marks, March'18)

Answer 10

Electronic cash ledger is maintained in prescribed form for each person, liable to pay tax, interest, penalty, late fee or any other amount, on the common portal for crediting the amount deposited and debiting the payment therefrom towards tax, interest, penalty, fee or any other amount.

The deposit can be made through any of the following modes, namely: -

- i. Internet Banking through authorised banks;
- ii. Credit card or Debit card through the authorised bank;
- iii. NEFT or RTGS from any bank; or
- iv. Over the Counter payment through authorised banks for deposits up to ₹ 10,000/- per challan per tax period, by cash, cheque or demand draft [Section 49 of the CGST Act read with rule 87 of the CGST Rules].

Question 11

M/s Salty & Spicy Limited reduced the amount of Rs. 1,50,000 from the output tax liability in contravention of provisions of section 42(10) of the CGST Act, 2017 for the month of April 20XX, which is ineligible credit. A show cause notice was issued by the Tax Department to pay tax along with interest. M/s Salty & Spicy Limited paid the tax and interest on 31st July, 20XX. Calculate Interest liability (Ignore Penalty). (MTP 4 Marks, March'19)

Answer 11

A taxable person who makes an undue or excess claim of input tax credit shall pay interest @ 24% p.a. on such undue or excess claim in terms of section 50 of CGST Act, 2017. The period of interest will be from the date following the due date of payment to the actual date of payment of tax. Due date of payment is 20th May, 20XX. Period for which interest is due = 21st May, 20XX to 31st July, 20XX

=72 days

Thus, interest liability = Rs. 1,50,000 x 24% x 72/365

=Rs. 7,101 (approx.)

Paper 3 - Taxation

Question 12

Suhasini is a registered software consultant. On account of her ill health, she could not provide any services during the month of October.

However, she had to incur all the expenses relating to her office. She paid ₹ 75,000 to various vendors. The total input tax involved on the goods and services procured by her is ₹ 13,500. Out of the total bills paid by her, one bill for ₹ 15,000 relates to security services availed for security of her office, tax on which is payable under reverse charge. Input tax involved in such bill is ₹ 2,700. Suhasini is of the opinion that for the month of October, no GST is payable from electronic cash ledger as she has sufficient balance of ITC for payment of GST under reverse charge on security services. Do you think Suhasini is right? Explain with reasons assuming provisions of rule 86B are not applicable. (RTP Nov'20)

Answer 12

The amount available in the electronic credit ledger, i.e. ITC may be used for making any payment towards output tax [Section 49(4)]. Output tax in relation to a taxable person, means the tax chargeable on taxable supply of goods or services or both made by him or by his agent but excludes tax payable by him on reverse charge basis [Section 2(82)]. Therefore, ITC cannot be used to pay the tax liability under reverse charge. The same is always required to be paid through electronic cash ledger and not electronic credit ledger. Thus, Suhasini is wrong and she will need to pay the GST of ₹ 2,700 on security service through electronic cash ledger.

Question 13

PPC Ltd., has availed Input Tax credit for ₹ 54,000/- IGST during February 2021 on a particular purchase. Accounting records for the above purchase, indicate that IGST paid to the supplier is ₹ 45,000/- as per the bill received. GSTR1 uploaded by the supplier for the above supply indicates ₹ 45,000/- as tax paid. Examine as per GST provisions, what value shall be updated in the ledgers maintained on behalf of PPC Ltd., on the common portal? (MTP 4 Marks, April'21)

Answer 13

PPC Ltd., have accounted and paid ₹ 45,000/- as IGST to the supplier concerned. However, availment of input tax credit has been made for ₹ 54,000/-.

As per Section 49(2) of CGST Act, 2017 "The input tax credit as self-assessed in the return of a registered person shall be credited to his electronic credit ledger, in accordance with section 41, to be maintained in such manner as may be prescribed." Accordingly, electronic credit ledger of PPC Ltd., shall be updated with a value of ₹ 54,000/- as per self-assessed return to be filed for February 2021, though the input tax credit shown by the supplier is only for ₹ 45,000/-.

Question 14 (Illustration)

M/s. Daksha Enterprises has made a cash deposit of ₹ 10,000 under minor head 'tax' of major head 'SGST'. It has a liability of ₹ 2,000 for minor head "Interest" under the major head "SGST". State whether M/s. Daksha Enterprises can utilise the amount available for payment of interest. (, PYP 2 Marks, May'19)

Answer 14

The Registered person is allowed to transfer the amount available under any minor head of a major head to any of the minor head of the same or other major head as per Section 49(10) of the CGST Act vide Form PMT-09.

Therefore, in the given case, amount of ₹ 10,000 available under minor head 'tax' of major head 'SGST' can be utilised for payment of liability of ₹ 2,000 under minor head 'interest' of the same major head, after making a due transfer entry using Form GST PMT-09 from the minor head of 'tax' to 'interest'.

Question 15

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Sahil is a supplier of taxable goods in Karnataka. He got registered under GST in the month of September, 2021 and wishes to pay his IGST liability for the month. Since he is making the GST payment for the first time, he is of the view that he needs to mandatorily have the online banking facility to make payment of GST; offline payment is not permitted under GST. You are required to apprise Sahil regarding the various modes of deposit in the electronic cash ledger. Further, advise him with regard to following issues:

- (a) **Are manual challans allowed under GST?**
- (b) **What is the validity period of the challan?**
- (c) **Is cross utilization among Major and Minor heads of the electronic cash ledger permitted? (RTP May'19)**

Answer 15

As per the provisions of CGST Act, 2017 read with relevant rules, the deposit in electronic cash ledger can be made through any of the following modes, namely:-

- (i) Internet Banking through authorised banks;
- (ii) Credit card or Debit card through the authorised bank;
- (iii) National Electronic Fund Transfer or Real Time Gross Settlement from any bank; or
- (iv) Over the Counter payment through authorised banks for deposits upto ten thousand rupees per challan per tax period, by cash, cheque or demand draft.

Thus, offline mode is also permitted under GST subject to specified conditions.

- (a) Manual or physical Challans are not allowed under the GST regime. It is mandatory to generate Challans online on the GST Portal.
- (b) Challan is valid for a period of 15 days.
- (c) A registered person may, on the common portal, transfer any amount of tax, interest, penalty, fee or any other amount available in the electronic cash ledger under the CGST Act, 2017 to the electronic cash ledger for integrated tax, central tax, State tax or Union territory tax or cess.

Question 16

M/s ABC & Co. have defaulted in filing the return under Section 39 of CGST Act, 2017 i.e. GSTR-3B for the month of March, 2024 within the specified due date. Reason for such delay is attributable to delay in closure of Books for March 2024, which have been finalized during May 2024. The GST Common portal prompted for payment of late fees payable under Section 47 of CGST Act, 2017 for a sum of ₹ 2,000 under CGST and SGST each. Accountant, of M/s ABC & Co., sought your confirmation for payment of such late fees through the balance available in Electronic Credit Ledger for the late fees. Give your guidance in this regard. (MTP 4 Marks, Oct'21)

Answer 16

Section 49(3) of the CGST Act, 2017 provides that the amount available in the electronic cash ledger may be used for making any payment towards tax, interest, penalty, fees or any other amount payable under the provisions of this Act or the rules made there under in prescribed manner.

Further, section 49(4) provides that the amount available in the electronic credit ledger may be used for making any payment towards output tax under this Act or under the Integrated Goods and Services Tax Act in prescribed manner.

Accordingly, as per the combined reading of the above provisions, late fees shall be paid only through electronic cash ledger and not possible through electronic credit ledger. Thus, contention of the accountant of M/s ABC & Co., is not correct and the above amount shown on the common portal has to be deposited in Electronic Cash Ledger under appropriate minor head, through any of the specified modes.

Question 17

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Paper 3 - Taxation

When shall the interest be payable by a registered person under section 50 of the CGST Act, 2017 and what is the maximum rate of interest chargeable for the same? (MTP 4 Marks, Aug'18,)

Answer 17

As per section 50 of the CGST Act, 2017, interest is payable in the following cases:-

- failure to pay tax, in full or in part within the prescribed period,
- undue or excess claim of input tax credit,
- undue or excess reduction in output tax liability.

The maximum rate of interest chargeable for the same is as under-

- (i) 18% p.a. in case of failure to pay full/part tax within the prescribed period
- (ii) 24% p.a. in case of undue or excess claim of input tax credit or undue or excess reduction in output tax liability.

Question 18

Mr. Piyush, a registered supplier of taxable goods, filed GSTR 3B for the month of January, 2021 on 15th April, 2021. The prescribed due date to file the said GSTR 3B was 20th February, 2021. The amount of net GST payable, in Cash i.e. Electronic Cash Ledger on supplies made by him for the said month worked out to be ₹ 36,500 which was paid on 15th April, 2021. Briefly explain the related provisions and compute the amount of interest payable under the CGST Act, 2017 by Mr. Piyush. Ignore the effect of leap year, if applicable in this case. (MTP 4 Marks March 22, May '20)

Answer 18

Interest is payable in case of delayed payment of tax @ 18% per annum from the date following the due date of payment to the actual date of payment of tax. Thus, the amount of interest payable by Mr. Piyush is as under:-
 Period of delay = 21st February, 2021 to 15th April, 2021 = 54 days
 Hence, amount of interest = ₹ 36,500 x 18% x 54/365 = ₹ 972

Question 19

Sangam Ltd., obtains registration for paying taxes under section 9 of CGST Act. He asked his tax manager to pay taxes on quarterly basis. However, Sangam Ltd.'s tax manager advised the Company to pay taxes on monthly basis. You are required to examine the validity of the advice given by tax manager? (MTP 4 Marks, Aug'18)

Answer 19

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.

Question 20

Mr. A has deposited a sum of ₹ 30,000 under minor head of "Interest" column for the major head "IGST". At the time of filing GSTR-3B for a particular tax period, he noticed that there is no sufficient amount under the minor head 'Tax' towards payment of ₹ 30,000. When approached with the Jurisdictional Tax officer, Mr. A was guided to deposit the tax amount under proper head of accountant claim a refund for the remittance of amount deposited under head "interest". Examine the relevant provisions of CGST Act, 2017 towards payment of tax and compliance with the law. (MTP 4 Marks, Nov'21)

Answer 20

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Provisions of Section 49(10) of CGST Act, 2017 permit a registered person for transferring the amount deposited under any of the minor head i.e. tax, interest, penalty, fees or others to any of the heads under IGST/CGST/SGST/UTGST and make the payment of taxes there upon. Accordingly, Mr. A need not deposit the tax amount under head "tax" and claim a refund for the remittance of amount deposited under head "interest". Rather, using the Form GST PMT 09, such amount can be transferred so-moto on the common portal from "interest" to "tax" head and tax liability be paid

As per amendment- A registered person may, on the common portal, transfer any amount of tax, interest, penalty, fee or any other amount available in the electronic cash ledger under this Act, to the electronic cash ledger for,—

- (a) integrated tax, central tax, State tax, Union territory tax or cess;**
- (b) or integrated tax or central tax of a distinct person as specified in sub-section (4) or, as the case may be, sub-section (5) of section 25, in such form and manner and subject to such conditions and restrictions as may be prescribed and such transfer shall be deemed to be a refund from the electronic cash ledger under this Act:**

Provided that no such transfer under clause (b) shall be allowed if the said registered person has any unpaid liability in his electronic liability register

Question 21

Explain the order in which liability of taxable person has to be discharged under GST laws. (RTP Nov '18)

Answer 21

Section 49(8) of CGST Act, 2017 prescribes the chronological order in which the liability of a taxable person has to be discharged:

- (d) self -assessed tax and other dues for the previous tax periods have to be discharged first.
- (e) self -assessed tax and other dues for the current tax period have to be discharged next.
- (f) Once these two steps are exhausted, thereafter any other amount payable including demand determined under section 73 or section 74 is to be discharged. In other words, the liability if any, arising out of demand notice and adjudication proceedings comes last. This sequence has to be mandatorily followed.

The expression "other dues" referred above mean interest, penalty, fee or any other amount payable under the Act or the rules made thereunder.

Question 22

Restrictions have been imposed on the use of amount available in the electronic credit ledger vide rule 86B of the CGST Rules, 2017. Is there any exceptions to rule 86B? If yes, state the exceptions. (RTP May '22)

Answer 22

Restrictions have been imposed on the use of amount available in electronic credit ledger vide rule 86B of the CGST Rules, 2017. Yes, there are exceptions to rule 86B. The exceptions to rule 86B are as under:-

- (i) Payment of Income Tax more than ₹ 1 lakh

Rule 86B may not apply in cases whereby person mentioned below have deposited sum of more than ₹ 1 lakh as income tax under the Income-tax Act, 1961 in each of the last 2 financial years for which the time limit to file return of income under section 139(1) of the said Act has expired

- ❖ The registered person or
- ❖ The karta/proprietor/the managing director of the registered person;
- ❖ Any of the two partners, whole-time directors, members of Managing Committee of Associations or Board of Trustees of the registered person, as the case may be.

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(ii) Receipt of refund of input tax credit of more than ₹ 1 lakh

Rule 86B may not apply whereby registered person has received a refund amount of more than ₹ 1 lakh on account of unutilized input tax credit under the following:

- ❖ zero-rated supplies made without payment of tax
- ❖ Inverted duty structure

It is pertinent to note that refund should have been received in the preceding financial year.

(iii) Payment of total output tax liability through electronic cash ledger in excess of 1% of total output tax liability

If the registered person has paid more than 1% of total output tax liability using electronic cash ledger upto the said month in the current financial year, the restrictions as specified in Rule 86B shall not apply.

It is pertinent to note that GST liability paid under reverse charge mechanism should not be taken into account while calculating the total output liability paid through electronic cash ledger.

(iv) Specified registered person:

Rule 86B would not be applicable in case of below-mentioned registered person:

- ❖ Government Department; or
- ❖ a public sector undertaking; or
- ❖ a local authority; or
- ❖ a statutory body.

However, Commissioner or an officer authorised by him in this behalf may remove the said restriction after such verifications and such safeguards as he may deem fit.

Question 23

Explain the order of discharge of tax and other dues as per the provisions of section 49(8) of the CGST Act, 2017. (PYP 5 Marks, Nov'20)

Answer 23

The order of discharge of tax and other dues as per provisions of section 49(8) of the CGST Act, 2017 is as under: -

- (a) self-assessed tax and other dues related to returns for the previous tax periods should be discharged first.
- (b) the self-assessed tax and other dues for the current period should be discharged next.
- (c) Lastly, any other amount payable including demand determined under section 73 or section 74 should be discharged.

Question 24

Electronic cash ledger balance of ₹ 5,000 under the major head of IGST can be utilized for discharging the liability of major head of CGST. (PYP 3 Marks, Nov'18)

Answer 24

The said statement is False.

Amount available under one major head cannot be utilized for discharging the liability under any other major head.

Question 25

Pranesh has deposited a sum of ₹ 5,000 under the head of 'Fee' column of Cess and ₹4,000 was lying unutilized under the head of 'Penalty' column of IGST. Both the deposits were made wrongly instead of depositing under the head of Fee column under SGST.

In the light of the provisions of section 49(10) & 49(11) of the CGST Act, 2017, briefly explain the relevant provisions as how can Pranesh rectify these errors? (PYP 3 Marks Nov '22)

Answer 25

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Paper 3 - Taxation

A registered person is allowed to make intra-head or inter-head transfer of amount, as available in electronic cash ledger, using specified form.

It can transfer any amount of tax, interest, penalty, fee or others, under one (major or minor) head to another (major or minor) head, as available in the electronic cash ledger. Therefore, in the given case, amount of ₹ 5,000 available under minor head 'fee' of major head 'cess' and ₹ 4,000 available under minor head 'penalty' of major head 'IGST' can be transferred to minor head 'fee' of major head 'SGST' using specified form.

Question 26

Mr. Manik provides the following information regarding his tax & other liabilities under GST law as per Electronic Liability Register:

Sr. No.	Particulars	Amount (₹)
1.	Tax due for the month of May	25,000
2.	Interest due for the month of May	2,000
3.	Penalty due for the month of May	3,000
4.	Tax due for the month of June	35,000
5.	Liability arising out of demand notice u/s 73	48,000

Mr. Manik wants to clear his liability of demand notice u/s 73 first.

Discuss the provision of order of discharge of GST liability u/s 49 (8) of the CGST Act & advice to Mr. Manik. (PYP 5 Marks May '23)

Answer 26

The order of discharge of GST liability under section 49(8) of the CGST Act is as under:

- (ii) self-assessed tax, interest, penalty, fee or any other amount related to returns of the previous tax periods.
- (iii) self-assessed tax, interest, penalty, fee or any other amount related to returns of the current tax period.
- (iv) any other amount payable including demand determined under section 73 or section 74,

In view of the above provisions, Mr. Manik cannot clear his liability of demand notice u/s 73 first.

The order of discharge of liability of Mr. Manik will be as under:

1. Tax, interest and penalty for the month of May, ₹ 30,000
2. Tax due for the month of June, ₹ 35,000
3. Liability arising out of demand notice u/s 73, ₹ 48,000

Question 27

Suhasini is a registered software consultant. On account of her ill health, she could not provide any services during the month of October.

However, she had to incur all the expenses relating to her office. She paid ₹ 75,000 to various vendors. The total input tax involved on the goods and services procured by her is ₹ 13,500. Out of the total bills paid by her, one bill for ₹ 15,000 relates to security services availed for security of her office, tax on which is payable under reverse charge. Input tax involved in such bill is ₹ 2,700. Suhasini is of the opinion that for the month of October, no GST is payable from electronic cash ledger as she has sufficient balance of ITC for payment of GST under reverse charge on security services. Do you think Suhasini is right? Explain with reasons assuming provisions of rule 86B are not applicable. (MTP 4 Marks Oct '22)

Answer 27

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Paper 3 - Taxation

The amount available in the electronic credit ledger, i.e. ITC may be used for making any payment towards output tax [Section 49(4)]. Output tax in relation to a taxable person, means the tax chargeable on taxable supply of goods or services or both made by him or by his agent but excludes tax payable by him on reverse charge basis [Section 2(82)]. Therefore, ITC cannot be used to pay the tax liability under reverse charge. The same is always required to be paid through electronic cash ledger and not electronic credit ledger. Thus, Suhasini is wrong and she will need to pay the GST of ₹ 2,700 on security service through electronic cash ledger.

Question 28

When shall the interest be payable by a registered person under section 50 of the CGST Act, 2017 and what is the maximum rate of interest chargeable for the same? (, PYP 5 Marks ,May '18)

Answer 28

As per section 50 of the CGST Act, 2017, interest is payable in the following cases:-

- failure to pay tax, in full or in part within the prescribed period,
- undue or excess claim of input tax credit,
- undue or excess reduction in output tax liability.

The maximum rate of interest chargeable for the same is as under-

- (iii) 18% p.a. in case of failure to pay full/part tax within the prescribed period
- (iv) 24% p.a. in case of undue or excess claim of input tax credit or undue or excess reduction in output tax liability.

Section - B

Question 1

How many types of electronic ledger/register are being maintained on GST common portal?

Answer 1

- (a) Electronic cash ledger
- (b) Electronic credit ledger
- (c) Electronic liability register

Question 2

What are the main features of GST payment process?

Answer 2

The main features of GST payment process are as follows:-

- (a) Electronically generated challan from GSTN common portal in all modes of payment and no use of manually prepared challan;
- (b) Facilitation for the tax payer by providing hassle free, anytime, anywhere mode of payment of tax;
- (c) Convenience of making payment online;
- (d) Realtime data for tax collection in electronic format;
- (e) Faster remittance of tax revenue to the Government Account;
- (f) Paperless transactions;
- (g) Speedy Accounting and reporting;

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- (h) Electronic reconciliation of all receipts;
- (i) Simplified procedure for banks;
- (j) Warehousing of Digital Challan.

Question 3

Are principles of unjust enrichment applicable for payment made under GST?

Answer 3

Yes, as per Section 49(9) of the CGST Act, 2017 every person who has paid the tax on goods or services or both under this Act shall, unless the contrary is proved by him, be deemed to have passed on the full incidence of such tax to the recipient of such goods or services or both.

Question 4

State the name of output tax under GST, where any of the input tax credit under GST can be availed?

Answer 4

IGST. IGST, CGST, SGST, UTGST i.e. all input tax credit can be availed against output tax liability known as IGST.

Question 5

Mr. A has deposited a sum of ₹ 30,000 under minor head of "Interest" column for the major head "IGST". At the time of filing GSTR-3B for a particular tax period, he noticed that there is no sufficient amount under the minor head 'Tax' towards payment of ₹ 30,000. When approached with the consultant, Mr. A was guided to deposit the tax amount under proper head of account and claim a refund for the remittance of amount deposited under head "interest". Examine the relevant provisions of CGST Act, 2017 towards payment of tax and compliance with the law.

Answer 5

Provisions of Section 49(10) of CGST Act, 2017 permit a registered person for transferring the amount deposited under any of the minor head i.e. tax, interest, penalty, fees or others to any of the heads under IGST/CGST/SGST/UTGS and make the payment of taxes there upon. Accordingly, Mr. A need not deposit the tax amount under head "tax" and claim a refund for the remittance of amount deposited under head "interest". Rather, using the Form GST PMT 09, such amount can be transferred suo-moto on the common portal from "interest" to "tax" head and tax liability be paid accordingly.

Question 6

M/s ABC & Co., have defaulted in filing the return under Section 39 of CGST Act, 2017 i.e. GSTR-3B for the month of March within the specified due date. Reason for such delay is attributable to delay in closure of books for March, which have been finalised during May. The GST Common portal prompted for payment of late fees payable under Section 47 of CGST Act, 2017 for a sum of ₹ 2,000 under CGST and SGST each. Accountant, of M/s ABC & Co., sought your confirmation for payment of such late fees through the balance available in Electronic Credit Ledger Give your guidance in this regard.

Answer 6

Section 49(3) of the CGST Act, 2017 provides that the amount available in the electronic cash ledger may be used for making any payment towards tax, interest, penalty, fees or any other amount payable under the provisions of this Act or the rules made there under in prescribed manner.

Further, section 49(4) provides that the amount available in the electronic credit ledger may be used for making any payment towards output tax under this Act or

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under the Integrated Goods and Services Tax Act in prescribed manner. Accordingly, as per the combined reading of the above provisions, late fees shall be paid only through electronic cash ledger and not possible through electronic credit ledger. Thus, contention of the accountant of M/s ABC & Co., is not correct and the above amount shown on the common portal has to be deposited in Electronic Cash Ledger under appropriate minor head, through any of the specified modes.

Question 7

Sahil is a supplier of taxable goods in Karnataka. He got registered under GST in the month of September, 2021 and wishes to pay his IGST liability for the month. Since he is making the GST payment for the first time, he is of the view that he needs to mandatorily have the online banking facility to make payment of GST; offline payment is not permitted under GST. You are required to apprise Sahil regarding the various modes of deposit in the electronic cash ledger. Further, advise him with regard to following issues:

- (d) Are manual challans allowed under GST?
- (e) What is the validity period of the challan?
- (f) Is cross utilization among Major and Minor heads of the electronic cash ledger permitted?

Answer 7

As per the provisions of CGST Act, 2017 read with relevant rules, the deposit in electronic cash ledger can be made through any of the following modes, namely:-

- (v) Internet Banking through authorised banks;
- (vi) Credit card or Debit card through the authorised bank;
- (vii) National Electronic Fund Transfer or Real Time Gross Settlement from any bank; or
- (viii) Over the Counter payment through authorised banks for deposits upto ten thousand rupees per challan per tax period, by cash, cheque or demand draft.

Thus, offline mode is also permitted under GST subject to specified conditions.

- (d) Manual or physical Challans are not allowed under the GST regime. It is mandatory to generate Challans online on the GST Portal.
- (e) Challan is valid for a period of 15 days.
- (f) A registered person may, on the common portal, transfer any amount of tax, interest, penalty, fee or any other amount available in the electronic cash ledger under the CGST Act, 2017 to the electronic cash ledger for integrated tax, central tax, State tax or Union territory tax or cess.

Question 8

Suhasini is a registered software consultant. On account of her ill health, she could not provide any services during the month of October. However, she had to incur all the expenses relating to her office. She paid ₹ 75,000 to various vendors. The total input tax involved on the goods and services procured by her is ₹ 13,500. Out of the total bills paid by her, one bill for ₹ 15,000 relates to security services availed for security of her office, tax on which is payable under reverse charge. Input tax involved in such bill is ₹ 2,700. Suhasini is of the opinion that for the month of October, no GST is payable from electronic cash ledger as she has sufficient balance of ITC for payment of GST under reverse charge on security services. Do you think Suhasini is right? Explain with reasons assuming provisions of rule 86B are not applicable.

Answer 8

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Question 11(Illustration)

M/s. Daksha Enterprises has made a cash deposit of ₹ 10,000 under minor head 'tax' of major head 'SGST'. It has a liability of ₹ 2,000 for minor head "Interest" under the major head "SGST". State whether M/s. Daksha Enterprises can utilise the amount available for payment of interest.

Answer 11

The Registered person is allowed to transfer the amount available under any minor head of a major head to any of the minor head of the same or other major head as per Section 49(10) of the CGST Act vide Form PMT-09.

Therefore, in the given case, amount of ₹ 10,000 available under minor head 'tax' of major head 'SGST' can be utilised for payment of liability of ₹ 2,000 under minor head 'interest' of the same major head, after making a due transfer entry using Form GST PMT-09 from the minor head of 'tax' to 'interest'.

Question 12(Illustration)

Mr. Alok, a registered supplier of taxable goods, filed GSTR 3B for the month of January, 2021 on 15th April, 2021. The prescribed due date to file the said GSTR3B was 20th February, 2021. The amount of net GST payable, in Cash i.e. Electronic Cash Ledger on supplies made by him for the said month worked out to be ₹ 36,500 which was paid on 15th April, 2021. Briefly explain the related provisions and compute the amount of interest payable under the CGST Act, 2017 by Mr. Alok. Ignore the effect of leap year, if applicable in this case.

Answer 12

Interest is payable in case of delayed payment of tax @ 18% per annum from the date following the due date of payment to the actual date of payment of tax.

Thus, the amount of interest payable by Mr. Alok is as under:- Period of delay = 21st February, 2021 to 15th April, 2021 = 54 days Hence, amount of interest = ₹ 36,500 x 18% x 54/365 = ₹ 972

Question 13 (Illustration)

ABC Ltd., have filed their GSTR3B for the month of July, 2021 within the due date prescribed under Section 39 i.e. 20.08.2021. Post filing of the return, the registered person has noticed during September 2021 that tax dues for the month of July, 2021 have been short paid for ₹ 40,000. ABC Ltd., has paid the above shortfall of ₹ 40,000, through GSTR3B of September 2021, filed on 20.10.2021 [payment through Cash ledger - ₹ 30,000 and Credit ledger ₹ 10,000]. Examine the Interest payable under the CGST Act, 2017. What would be your answer if, GSTR3B for the month of July 2021 has been filed belatedly on 20.10.2021 and the self-assessed tax of ₹ 40,000/- has been paid on 20.10.2021 [payment through electronic cash ledger - ₹ 30,000 and electronic credit ledger ₹ 10,000]

Notes:

- There exists adequate balance in Electronic Cash & Credit

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- ledger as on 31.07.2021 for the above short fall
- No other supply has been made nor tax payable for the month of July, 2021 other than ₹ 40,000/- missed out to be paid on forward charge basis
- Ignore the effect of leap year, if applicable in this case.

Answer 13

Interest is payable under Section 50 of the CGST Act, 2017 in case of delayed payment of tax @ 18% per annum from the date following the due date of payment to the actual date of payment of tax.

As per proviso to sub-section (1) of Section 50, interest is payable on the net tax liability paid in cash, only if the return to be filed for a tax period under Section 39, has been filed after the due date to furnish such return.

In the above scenario, ABC Ltd., has defaulted in making the payment for ₹ 40,000 on self-assessment basis in the return for the month of July, 2021. Accordingly, interest is payable on the gross liability and proviso of sub-section 50(1) shall not be applicable.

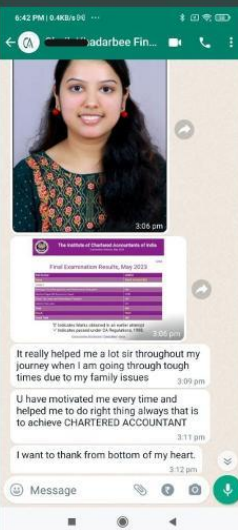
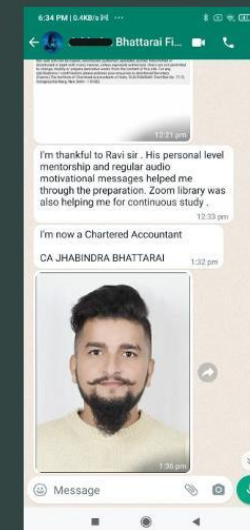
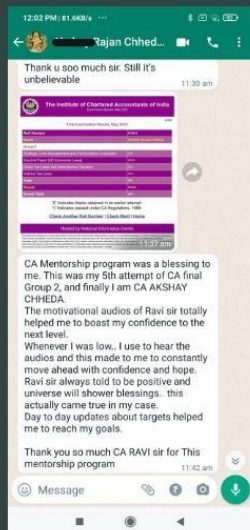
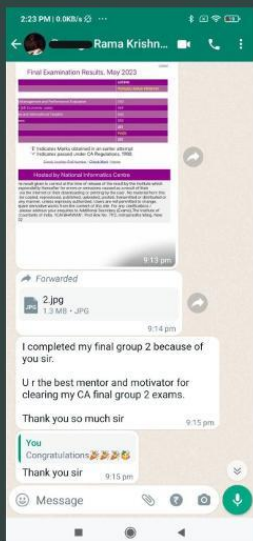
Thus, the amount of interest payable by ABC Ltd., is as under:- Period of delay = 21st August, 2021 to 20th October, 2021 = 61 days Hence, amount of interest = ₹ 40,000 x 18% x 61/365 = ₹ 1,203

Alternatively, if ABC Ltd., have filed the return for the month of July, 2021 on 20.10.2021, beyond the stipulated due date of 20.08.2021 and if the self-assessed tax for July, 2021 has been paid on 20.10.2021, Interest under proviso to Section 50(1) shall be payable on the tax paid through Electronic Cash Ledger only.

Hence Interest is payable from 21st August 2021 till 20th October 2021 = 61 days Amount of Interest = ₹ 30,000 x 18% x 61/365 = ₹ 902

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Chapter 14 Payment of Tax

Attempt wise Distribution

Attem pts	May' 18	Nov' 18	May'19	Nov' 19	Nov' 20	Jan' 21	Jul'2 1	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
MCQ												
MTP			Q2,Q3, Q4							Q5		
RTP			Q1									
Q & A												
MTP							Q3				Q5	
PYP					Q1,Q 2		Q6					
RTP			Q4									

Section – A MULTIPLE CHOICE QUESTIONS (MCQS)

1. In respect of a consignment supplied on 20th August, provisional assessment was resorted to. The assessment was finalized on 20th November and the taxpayer became liable to pay differential IGST of ₹ 10,000/-. The taxpayer paid this amount on 20th February next year. The number of days for which the taxpayer is liable to pay interest are-(Nov 20)
- 184 days
 - 153 days
 - 92 days
 - 204 days

Ans: (b)

2. A taxable person has made following supplies in January, 2018 – Sales within the State – Rs. 2,00,000. Exports out of India– Rs. 60,000. Supplies to SEZ located within the State – Rs. 40,000. He does not intend to clear goods under Letter of Undertaking (LUT) or bond. The input tax credit available to him during January, 2018 – IGST – Nil. CGST – Rs.10,000. SGST – Rs. 20,000. There is no opening balance in his electronic cash ledger or electronic credit ledger. Tax rates are – SGST – 9%, CGST – 9%, IGST – 18%. How much amount is payable by him in cash?
- CGST – Rs. 8,000 SGST – Nil
 - CGST – Rs. 11,600 SGST – Rs. 1,600
 - CGST – Rs. 8,000, SGST – Nil, IGST – Rs. 5,200
 - CGST – Rs. 8,000 SGST – Nil, IGST – Rs. 16,000 (2 Marks April '19)

Ans: (d)

3. In which of the following supplies of goods and services made exclusively to Government departments, agencies etc., TDS is required to be deducted?

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- (i) Health Department executed a contract with a local supplier to supply "medical grade oxygen" of ₹ 2.6 lakh (including GST @ 18%) and is making full payment.
- (ii) Government school is making a payment of ₹ 3.5 Lakh to a supplier for supply of cooked food as mid-day meal under a scheme sponsored by Central/State Government
- (iii) Municipal Corporation of Kolkata purchases a heavy generator from a supplier in Delhi. Now, it is making payment of ₹ 5 lakh and IGST @18% on ₹ 5 lakh for such purchase.
- (iv) Finance Department is making a payment of ₹ 3 lakh (including GST @ 18%) to a supplier of 'printing & stationery'.

Assume all other conditions for deduction of TDS are fulfilled.

- (a) (i), (ii) and (iii)
- (b) (ii), (iii) and (iv)
- (c) Only (i) and (ii)
- (d) Only (iii) and (iv) (2 Marks March '19, Oct'19)

Ans : (d)

4. Analyze the transactions mentioned below-

- i. Mr. Abhinay, provides architect services to Institute for Rural Development, a Government Agency for Rs. 2,80,000/- (inclusive of Rs. 30,000/- GST) under a contract in October, 2018. Mr. Abhinay, is registered under GST. Being a registered supplier, Institute for Rural Development deducted TDS of supplier.
- ii. M/s. Manmohak Apparels, is registered under GST in Madhya Pradesh. It sells leather handbags across India through e-commerce operator Pingpong. Pingpong, is also registered with Madhya Pradesh GST Authority as TCS collector and collected TCS @ 1% (0.5% CGST + 0.5% SGST) on supplies made through it. M/s. Manmohak Apparels made sales of Rs. 3,45,000/- and received sales returns of Rs. 67,700/- in the month of October, 2018. Sales are inclusive of tax. Leather handbags are taxable @ 18% GST. Pingpong, collected TCS of Rs. 2,350/- from M/s Manmohak Apparels. Which of the transactions are in compliance with section 51 or section 52 of CGST Act? (2 Marks April '19)
 - (a) Only (i)
 - (b) Only (ii)
 - (c) Both (i) and (ii)
 - (d) Neither (i) nor (ii)

Ans: (b)

5. Sachi Traders, registered in Maharashtra, purchased machinery two years back worth ₹ 2,00,00,000 and did not avail ITC on said machinery at the time of its purchase. After using the machinery for two years, it gave said machinery free of cost in the month of September (in the current year) to an unrelated person in Punjab. On the date of transfer, open market value of the machinery was ₹ 1,25,00,000 and the written down value was ₹ 1,53,00,530. In the month of September, it also supplied taxable goods worth ₹ 50,00,000 to Hike Oil Corporation Limited in the territorial waters. The said territorial waters are located at a distance of 5 nautical miles from the baseline of the State of Maharashtra and 7 nautical miles from the baseline of the State of Kerala. All above amounts are exclusive of GST and rates of applicable CGST, SGST and IGST in above cases are 9%, 9% and 18%. You are required to determine the amount of net CGST and SGST and/or IGST payable in the month of September.

- (a) CGST: ₹ 4,50,000; SGST: ₹ 4,50,000; IGST: Nil

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- (b) CGST: Nil; SGST: Nil; IGST: ₹ 9,00,000
 (c) CGST: Nil; SGST: Nil; IGST: Nil
 (d) CGST: ₹ 4,50,000; SGST: ₹ 4,50,000; IGST: ₹ 22,50,000 (2 Marks)
March 22)

Ans : (a)

Question & Answers**Question 1**

BSA Corporation is a Public Sector Undertaking registered in Karnataka. For entertainment events in Bengaluru and at Mumbai, BSA has given contract to Mr. A, a renowned artist, registered person in Maharashtra, to perform on contemporary Bollywood songs. BSA Corporation agreed to pay ₹ 12,39,000 and ₹ 18,29,000, inclusive of GST, for Mumbai and Bengaluru events respectively. BSA Corporation seeks your advice regarding amount of TDS to be deducted assuming GST rate @ 18% (CGST @ 9%, SGST @ 9%, IGST @18%) (PYP 5 Marks Nov 22)

Answer 1

A Public Sector Undertaking is required to deduct tax @ 2% (on inter-State supplies) from payment made to the supplier of taxable services where the total value of such supply, excluding tax indicated in the invoice, under a contract, exceeds ₹ 2,50,000.

Value of supplies excluding tax are

₹ 10,50,000 (₹ 12,39,000 × 100/118) and

₹ 15,50,000 (₹ 18,29,000 × 100/118)

Further, in the given case, since the location of supplier is Maharashtra and place of supply of services provided by Mr. A to BSA Corporation is the location of recipient, viz. Karnataka, said services provided at both Mumbai and Bengaluru events are inter -State supplies.

Accordingly, in the given case, BSA Corporation is required to deduct tax as follows:

- (i) ₹ 10,50,000 × 2% = ₹ 21,000 (IGST)
 (ii) ₹ 15,50,000 × 2% = ₹ 31,000 (IGST)

Question 2

- (i) **A Central Government Department located at Uttar Pradesh is registered with the Commercial Tax Department UP State for deducting GST. It enters into a contract with a Public Sector Undertaking (PSU), registered under GST in the State of Delhi, for supplying goods valued ₹ 3,50,000. The PSU argues that no tax is deductible on this supply by the Central Government Department as it is located outside the State of Uttar Pradesh and therefore not liable to tax under CGST and SGST as it is a local levy and IGST tax deduction is not applicable if it is located in another State, other than the State in which the Department is registered. You are required to comment on this.**
- (ii) **Would there be any difference, if instead of the PSU if it was an entity in the private sector? Applicable tax rate for deduction is 1% CGST, 1% SGST and 2% IGST.**
- (iii) **If the private sector entity undertakes works contract, for the above Department in New Delhi. What would be the position of tax deduction when the contract value is ₹ 5,00,000?**
- (iv) **The disbursing officer has not paid the tax deducted in the month of February 2019, amounting to ₹ 2,00,000 under CGST and 2,00,000 under SGST to the Government's account on the relevant due date, but has paid it on 14th May, 2019. Further, return for that month is also filed on that date and the**

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certificate is also issued simultaneously. What are the consequences, on such failures, to the disbursing officer under the GST law? (PYP 4 Marks Nov '20)

Answer 2

- (i) Certain specified persons are required to deduct tax from the payment made to the supplier of taxable goods and/or services, where the total value of such supply [excluding GST] under a contract, exceeds ₹ 2,50,000. However, the tax is not liable to be deducted at source when supply of goods and/or services has taken place between one specified person to another specified person. Since both Central Government Department and PSU are the specified persons, tax is not deductible in case of supply of goods between them.
- (ii) Central Government Department is mandatorily required to deduct IGST @ 2% since a private entity is not the specified person.
- (iii) Since, in the given case, the location of supplier and place of supply is in the same State, i.e., Delhi and location of recipient is in UP, Central Government Department is not required to deduct TDS although the total value of supply under the contract is more than ₹ 2,50,000¹⁹.
- (iv) Failure to deposit TDS with the Government and failure to furnish TDS return within the stipulated time period will result in following consequences:
 - a. Interest @ 18% p.a. on the amount of tax deducted shall be payable.
 - b. Late fee of ₹ 100 per day for the period of delay in furnishing return, or ₹ 5,000, whichever is lower, shall be payable. Equal amount of late fee will be payable under the respective State law.
 - c. Applicable penalty will also be levied.

Question 3

Shubi Enterprises is entitled for exemption from tax under GST law. However, it collected tax from its buyers worth Rs. 50,000 in the month of August. It has not deposited the said amount collected as GST with the Government. You are required to brief to Shubi Enterprises the consequences of collecting tax, but not depositing the same with Government as provided under section 76 of the CGST Act, 2017. (MTP 5 Marks April '21)

Answer 3

It is mandatory to pay amount, collected from other person representing tax under GST law, to the Government. Every person who has collected from any other person any amount as representing the tax under GST law, and has not paid the said amount to the Government, shall forthwith pay the said amount to the Government, irrespective of whether the supplies in respect of which such amount was collected are taxable or not. For any such amount not so paid, proper officer may issue show cause notice (SCN) for recovery of such amount and penalty equivalent to amount specified in notice.

The proper officer shall, after considering the representation, if any, made by the person on whom SCN is served, determine the amount due from such person and thereupon such person shall pay the amount so determined alongwith interest at the rate specified under section 50 of the CGST Act, 2017 from the date such amount was collected by him to the date such amount is paid by him to the Government.

Question 4

Manihar Enterprises, registered in Delhi, is engaged in supply of various goods and services exclusively to Government departments, agencies etc. and persons notified under section 51 of the CGST Act, 2017. It has provided the information relating to the supplies made, their contract values and the payment due against each of them in the month of October, 20XX as under:

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S.No.	Particulars	Total contract value (inclusive of GST) (₹)	Payment due in October, 20XX (₹)
(i)	Supply of stationery to Fisheries Department, Kolkata	2,60,000	15,000
(ii)	Supply of car rental services to Municipal Corporation of Delhi	2,95,000	20,000
(iii)	Supply of a heavy machinery to Public Sector Undertaking located in Uttarakhand	5,90,000	25,000
(iv)	Supply of taxable goods to Delhi office of National Housing Bank, a society established by Government of India under the Societies Registration Act, 1860	6,49,000	50,000
(v)	Interior decoration of Andhra Bhawan located in Delhi. Service contract is entered into with the Government of Andhra Pradesh (registered only in Andhra Pradesh).	12,39,000	12,39,000
(vi)	Supply of printed books and printed post cards to a West Delhi Post Office [Out of total contract value of ₹ 9,72,000, contract value for supply of books (exempt from GST) is ₹ 7,00,000 and for supply of printed post cards (taxable under GST) is ₹ 2,72,000.]	9,72,000	50,000 for books & 20,000 for printed post cards
(vii)	Maintenance of street lights in Municipal area of East Delhi* [The maintenance contract entered into with the Municipal Corporation of Delhi also involves replacement of defunct lights and other spares. However, the value of supply of goods is not more than 25% of the value of composite supply.] *an activity in relation to any function entrusted to a Municipality under article 243W of the Constitution	3,50,000	3,50,000

You are required to determine amount of tax, if any, to be deducted from each of the receivable given above assuming the rate of CGST, SGST and IGST as 9%, 9% and 18% respectively. Will your answer be different, if Manihar Enterprises is registered under composition scheme? (RTP May '19)

Answer 4

As per section 51 of the CGST Act, 2017 read with section 20 of the IGST Act, 2017 and Notification No. 50/2018 CT 13.09.2018, with effect from 01.10.2018, following persons are required to deduct CGST @ 1% [Effective tax 2% (1% CGST + 1% SGST/UTGST)] or IGST @ 2% from the payment made/credited to the supplier (deductee) of taxable goods or services or both, where the total value of such supply, under a contract, exceeds ₹ 2,50,000:

- (a) a department or establishment of the Central Government or State Government;
or

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- (b) local authority; or
- (c) Governmental agencies; or
- (d) an authority or a board or any other body, -
 - (i) set up by an Act of Parliament or a State Legislature; or
 - (ii) established by any Government, with 51% or more participation by way of equity or control, to carry out any function; or
- (e) Society established by the Central Government or the State Government or a Local Authority under the Societies Registration Act, 1860, or
- (f) Public sector undertakings.

Further, for the purpose of deduction of tax, the value of supply shall be taken as the amount excluding CGST, SGST/UTGST, IGST and GST Compensation Cess indicated in the invoice.

Since in the given case, Manihaar Enterprises is supplying goods and services exclusively to Government departments, agencies etc. and persons notified under section 51 of the CGST Act, 2017, applicability of TDS provisions on its various receivables is examined in accordance with the above-mentioned provisions as under:

S. No.	Particulars	Total contract value (₹)	Payment due (₹)	Tax to be deducted		
				CGST (₹)	SGST (₹)	IGST (₹)
(i)	Supply of stationery to Fisheries Department, Kolkata (Note-1)	2,60,000	15,000	--		
(ii)	Supply of car rental services to Municipal Corporation of Delhi (Note-2)	2,95,000	20,000	--		
(iii)	Supply of a heavy machinery to Public Sector Undertaking located in Uttarakhand (Note-3)	5,90,000	25,000			500
(iv)	Supply of taxable goods to Delhi office of National Housing Bank, a society established by Government of India under the Societies Registration Act, 1860 (Note-4)	6,49,000	50,000	500	500	
(v)	Interior decoration of Andhra Bhawan located in Delhi (Note-5)	12,39,000	12,39,000	--		
(vi)	Supply of printed books and printed post cards to a West Delhi Post Office (Note-6)	9,72,000		--		
(vii)	Maintenance of street lights in Municipal area of East Delhi (Note-7)	3,50,000	3,50,000	--		

Notes:

- Being an inter-State supply of goods, supply of stationery to Fisheries Department, Kolkata is subject to IGST @ 18%. Therefore, total value of taxable supply [excluding IGST] under the contract is as follows:

$$= ₹ 2,60,000 \times 100 / 118$$

$$= ₹ 2,20,339 \text{ (rounded off)}$$

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- Since the total value of supply under the contract does not exceed ₹ 2,50,000, tax is not required to be deducted.
2. Being an intra-State supply of services, supply of car rental services to Municipal Corporation of Delhi is subject to CGST and SGST @ 9% each. Therefore, total value of taxable supply [excluding CGST and SGST] under the contract is as follows:

$$= ₹ 2,95,000 \times 100 / 118$$

$$= ₹ 2,50,000$$

Since the total value of supply under the contract does not exceed ₹ 2,50,000, tax is not required to be deducted.
 3. Being an inter-State supply of goods, supply of heavy machinery to PSU in Uttarakhand is subject to IGST @ 18%. Therefore, total value of taxable supply [excluding IGST] under the contract is as follows:

$$= ₹ 5,90,000 \times 100 / 118$$

$$= ₹ 5,00,000$$

Since the total value of supply under the contract exceeds ₹ 2,50,000, PSU in Uttarakhand is required to deduct tax @ 2% of ₹ 25,000, i.e. ₹ 500.
 4. Being an intra-State supply of goods, supply of taxable goods to National Housing Bank, Delhi is subject to CGST and SGST @ 9% each. Therefore, total value of taxable supply [excluding CGST and SGST] under the contract is as follows:

$$= ₹ 6,49,000 \times 100 / 118$$

$$= ₹ 5,50,000 \text{ (rounded off)}$$

Since the total value of supply under the contract exceeds ₹ 2,50,000, National Housing Bank, Delhi is required to deduct tax @ 2% (1% CGST + 1% SGST) of ₹ 50,000, i.e. ₹ 1,000.
 5. Proviso to section 51(1) of the CGST Act, 2017 stipulates that no tax shall be deducted if the location of the supplier and the place of supply is in a State or Union territory which is different from the State or as the case may be, Union territory of registration of the recipient.
Section 12(3) of the IGST Act, 2017, inter alia, stipulates that the place of supply of services, directly in relation to an immovable property, including services provided by interior decorators, shall be the location at which the immovable property is located or intended to be located. Accordingly, the place of supply of the interior decoration of Andhra Bhawan shall be Delhi. Since the location of the supplier (Manihar Enterprises) and the place of supply is Delhi and the State of registration of the recipient - Government of Andhra Pradesh is Andhra Pradesh, no tax is liable to be deducted in the given case.
 6. If the contract is made for both taxable supply and exempted supply, tax shall be deducted if the total value of taxable supply in the contract exceeds ₹ 2,50,000. Being an intra-State supply of goods, supply of printed post cards to a West Delhi Post Office is subject to CGST and SGST @ 9% each. Therefore, total value of taxable supply [excluding CGST and SGST] under the contract is as follows:

$$= ₹ 2,72,000 \times 100 / 118$$

$$= ₹ 2,30,509 \text{ (rounded off)}$$

Since the total value of taxable supply under the contract does not exceed ₹ 2,50,000, tax is not required to be deducted.
 7. Composite supply of goods and services in which the value of supply of goods constitutes not more than 25% of the value of the said composite supply provided to, inter alia, local authority by way of any activity in relation to any function entrusted to a Municipality under article 243W of the Constitution is exempt from GST. Thus, maintenance of street lights (an activity in relation to a function entrusted to a Municipality) in Municipal area of East Delhi involving replacement of defunct lights and other spares where the value of supply of goods is not more than 25% of the value of composite supply is a service exempt from GST. Since tax

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is liable to be deducted from the payment made or credited to the supplier of taxable goods or services or both, no tax is required to be deducted in the given case as the supply is exempt.

The answer will remain unchanged even if Manihar Enterprises is registered under composition scheme. Tax will be deducted in all cases where it is required to be deducted under section 51 of the CGST Act, 2017 including the scenarios when the supplier is registered under composition scheme.

Question 5

Ragini Traders, a registered supplier of Jaipur, is engaged in supply of various goods and services exclusively to Government departments, agencies, local authority and persons notified under section 51 of the CGST Act, 2017.

You are required to briefly explain the provisions relating to tax deduction at source under section 51 and also determine the amount of tax, if any, to be deducted from each of the receivables given below (independent cases)

assuming that the payments as per the contract values are made on 31st October. The rates of CGST, SGST and IGST may be assumed to be 6%, 6% and 12% respectively.

- (1) Supply of computer stationery to Public Sector Undertaking (PSU) located & registered in Mumbai. Total contract value is ₹ 2,72,000 (inclusive of GST)**
- (2) Supply of air conditioner to GST department located & registered in Delhi. Total contract value is ₹ 2,55,000 (exclusive of GST)**
- (3) Supply of generator renting service to Municipal Corporation of Jaipur (not exempt under GST law). Total contract value is ₹ 3,50,000 (inclusive of GST) (MTP 4 Marks March '23)**

Answer 5

As per section 51 of the CGST Act, 2017, Government departments, agencies, local authority and notified persons are required to deduct tax @ 2% (1% CGST + 1% SGST/UTGST) or IGST @ 2% from payment made to the supplier of taxable goods and/ or services where the total value of such supply [excluding tax and compensation cess indicated in the invoice], under a contract, exceeds ₹ 2,50,000. Since in the given case, Ragini Traders is supplying goods and services exclusively to Government departments, agencies, local authority and persons notified under section 51 of the CGST Act, 2017, applicability of TDS provisions on its various receivables is examined in accordance with the above-mentioned provisions as under:

S. No.	Particulars	Total contract value due to be received [excluding GST] (₹)	Tax to be deducted		
			CGST @ 1% (₹)	SGST @ 1% (₹)	IGST @ 2% (₹)
(1)	Supply of computer stationery to PSU in Mumbai [Since the total value of supply under the contract [excluding IGST (being inter-State supply)] does not exceed ₹ 2,50,000, tax is not required to be deducted.]	2,42,857 [2,72,000 × 100 / 112]	--	--	

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(2)	Supply of air conditioner to GST Department in Delhi [Since the total value of supply under the contract [excluding IGST (being inter-State supply)] exceeds ₹ 2,50,000, tax is required to be deducted.]	2,55,000	--		5,100
(3)	Supply of a generator renting service to Municipal Corporation of Jaipur [Since the total value of supply under the contract [excluding CGST and SGST (being intra- State supply)] exceeds ₹ 2,50,000, tax is required to be deducted.]	3,12,500 [3,50,000 × 100 / 112]	3,125	3,125	
	Total		3,125	3,125	5,100

Question 6

From the following information of independent cases, your expert advice, with appropriate reasoning, is sought on the applicability of TDS/TCS provisions of the CGST Act, 2017. You shall also quantify the amount of TDS/TCS, as the case be, if the same is applicable.

- (i) Top Fashions, a designer cloth dealer and registered in the State of West Bengal, effected supply through 'QUICK DEAL', an electronic commerce operator. Net value of taxable intra-State supplies effected for the month of October 2019 was ₹ 1,50,000.
- (ii) M/s Super Builders, a registered supplier in Tamil Nadu, was awarded a works contract by Government of Tamil Nadu amounting to ₹ 4,30,000. Of this, value of exempt supply was ₹ 1,00,000.
- (iii) Tasty Caterers, a registered supplier of Kerala, provided catering services in Kochi, Kerala to Government of Andhra Pradesh for its annual training camp held for its staff. Value of said services was ₹ 4,50,000. (PYP 4 Marks Jan 21)

Answer 6

- (i) An electronic commerce operator (ECO) is required to collect TCS - an amount @ 1% (CGST 0.5% and SGST @ 0.5%) of the net value of taxable supplies made through it by other suppliers.

$$= ₹ 1,50,000 \times 0.5\%$$

$$= ₹ 750 \text{ (CGST) \& } ₹ 750 \text{ (SGST)}$$
- (ii) A State Government is required to deduct tax from the payment made to the supplier of taxable goods and/or services, where the total value of such supply [excluding GST] under a contract, exceeds ₹ 2,50,000. TDS to be deducted in the given intra-State supply (since place of supply and location of supplier is in Tamil Nadu) is as follows:

$$= ₹ (4,30,000 - 1,00,000) \times 1\%$$

$$= ₹ 3,300 \text{ (CGST)}$$

$$₹ 3,300 \text{ (SGST)}$$
- (iii) Since, in the given case, the location of supplier and place of supply are in the same State, i.e., Kerala and location of recipient is in Andhra Pradesh, Andhra Pradesh Government is not required to deduct TDS although the total

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value of supply under the contract is more than ₹ 2,50,000.

Note: In above question, it has been assumed that the value given is exclusive of GST, wherever applicable, since the rate of tax is not given in the question.

Section - B

Question 1

Whether the rate of tax of 1% notified under section 52 is CGST or SGST or a combination of both CGST and SGST?

Answer 1

The rate of TCS as notified under CGST Act is payable under CGST and the equal rate of TCS is expected under the SGST Act also, in effect aggregating to 1%.

Question 2

Is every e-commerce operator required to collect tax on behalf of actual supplier?

Answer 2

Yes, every e-commerce operator is required to collect tax where consideration with respect to the supply is being collected by the e-commerce operator.

However, no TCS is required to be collected in the following cases:-

- I. on supply of services notified under section 9(5) of the CGST Act, 2017.
- II. on exempt supplies
- III. on supplies on which the recipient is required to pay tax on reverse charge basis.

Question 3

State whether the provisions pertaining to tax collected at source under section 52 of CGST Act, will be applicable in below mentioned scenarios -

- I. Fitan sells watch on its own through its own website
- II. ABC limited who is dealer of Fitan brand sells watches through Slipkart, an electronic commerce operator

Answer 3

Answers for both the scenarios is as follows:

As per Section 52, every electronic commerce operator not being an agent, shall collect an amount calculated at such rate not exceeding one per cent., as may be notified by the Government on the recommendations of

- (a) the Council, of the net value of taxable supplies made through it by other suppliers where the consideration with respect to such supplies is to be collected by the operator. Hence, if the person sells on his own, provisions pertaining to tax collected at source (TCS) won't be applicable.
- (b) If ABC limited who is dealer of Fitan brand sells watches through Slipkart, then the provision of TCS will be applicable to Slipkart.

Question 4

There is no onus of filing any monthly & annual statements by ECO. Examine the technical veracity of the statement by explaining relevant provisions.

Answer 4

The given statement is invalid. An electronic statement has to be filed by the ECO containing details of the outward supplies of goods and/ or services effected through it, including the supplies returned through it and the amount collected by it as TCS during the month within 10 days after the end of the each month in which supplies are made.

Additionally, the ECO is also mandated to file an Annual Statement on or before 31st day of December following the end of the financial year.

The Commissioner has been empowered to extend the due date for furnishing of monthly and annual statement by the person collecting tax at source.

Paper 3 - Taxation

Question 5

State whether the provisions pertaining to tax collected at source under section 52 of CGST Act, will be applicable, if ABC limited who is dealer of Royul brand sells watches through Slipkart, an electronic commerce operator?

Answer 5

As per Section 52, every electronic commerce operator not being an agent, shall collect an amount calculated at such rate not exceeding one per cent., as may be notified by the Government on the recommendations of the Council, of the net value of taxable supplies made through it by other suppliers where the consideration with respect to such supplies is to be collected by the operator. If ABC limited who is dealer of Royul brand sells watches through Slipkart, then the provision of TCS will be applicable to Slipkart.

Question (ILLUSTRATION) 6

Mr. X is a supplier selling his own products through a web site hosted by him. Does he fall under the definition of an “electronic commerce operator”? Whether he is required to collect TCS on such supplies?

Answer 6

As per the definitions in Section 2(44) and 2(45) of the CGST Act, 2017, Mr. X will come under the definition of an “electronic commerce operator”. However, according to Section 52 of the Act *ibid*, TCS is required to be collected on the net value of taxable supplies made through it by other suppliers where the consideration is to be collected by the ECO. In cases, where someone is selling their own products through a website, there is no requirement to collect tax at source as per the provisions of this Section. These transactions will be liable to GST at the prevailing rates.

Question (ILLUSTRATION) 7

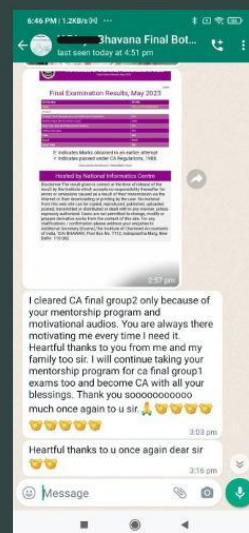
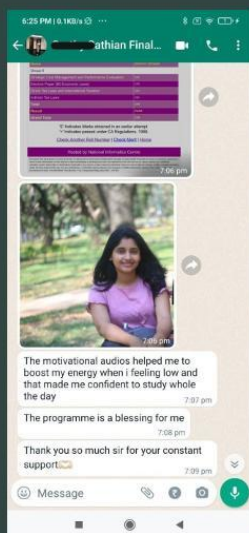
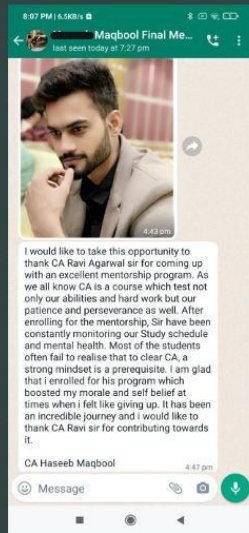
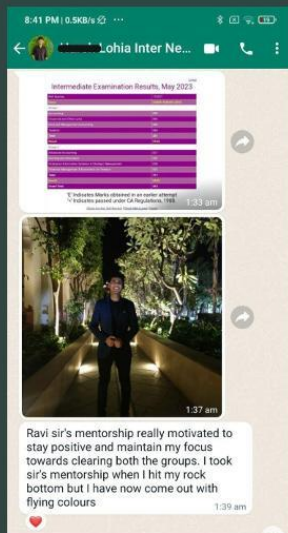
If Mr. A purchase goods from different vendors and in turn Mr. A, is selling them on his own website under his own billing, Is TCS required to be collected on such supplies?

Answer 7

No. According to Section 52 of the CGST Act, 2017, TCS is required to be collected on the net value of taxable supplies made through E-commerce operator by other suppliers where the consideration is to be collected by the ECO. In this case, there are two transactions - Mr. A purchase the goods from the vendors, and those goods are sold through his own website. For the first transaction, GST is leviable, and will need to be paid to vendor, on which credit is available to Mr. A. The second transaction is a supply on own account of Mr. A, and not by other suppliers and there is no requirement to collect tax at source. The transaction will attract GST at the prevailing rates.

Paper 3 - Taxation

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Paper 3 - Taxation

Chapter 15 Returns

Attempt wise Distribution

Attempts	May' 18	Nov' 18	May' 19	Nov' 19	Nov' 20	Jan' 21	Jul' 21	Dec' 21	May' 22	Nov' 22	May' 23	Nov' 23
QA												
MTP		Q20		Q10	Q13			Q11, Q12		Q14	Q9	
PYP		Q3		Q4, Q19	Q5	Q18	Q1	Q2		Q21	Q22	
RTP			Q15	Q8	Q17		Q16		Q7			Q6

Section – A Question & Answers

Question 1

Who can be registered as Goods and Service Tax Practitioners under Section 48 of the CGST Act? (PYP 5 Marks July '21)

Answer 1

Following persons can be registered as Goods and Service Tax Practitioners:

Any person who, (i) is a citizen of India; (ii) is a person of sound mind; (iii) is not adjudicated as insolvent; (iv) has not been convicted by a competent court; and satisfies any of the following conditions, namely that he:

1. is a retired officer of Commercial Tax Department of any State Govt./CBIC who, during service under Government had worked in a post not lower than the rank of a Group-B gazetted officer for a period ≥ 2 years, or
 2. is enrolled as a Sales Tax Practitioner or Tax Return Preparer under the erstwhile indirect tax laws for a period of not less than 5 years, or
 3. acquired any of the prescribed qualifications
 4. has passed Graduate/postgraduate degree or its equivalent examination having a degree in specified disciplines, from any Indian University or a degree examination of any Foreign University recognised by any Indian University as equivalent to degree examination
 5. has passed any other notified examination
 6. has passed final examination of ICAI/ ICSI/ Institute of Cost Accountants of India
- Note: Any 3 points may be mentioned.

Question 2

PQR Ltd., have filed their GSTR-3B return for the month of August, 2020 within the due date i.e. 20.09.2020. It was noticed in October, 2020 that tax dues for the month of August, 2020 have been short paid by ` 10,000. The shortfall of ` 10,000 was paid through cash ledger and credit ledger amounting to ` 7,500 and ` 2,500 respectively while filing GSTR-3B of October, 2020 which was filed on 20.11.2020.

- (1) **Examine and compute the interest payable if any under the CGST Act, 2017.**
- (2) **What would be your answer if, GSTR-3B for the month of August 2020 had**

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been filed belatedly on 20.11.2020 as above.

Note: Ignore the effect of the leap year. Electronic cash ledger and credit ledger carried sufficient balance for the above shortfall. (PYP 5 Marks Dec'21)

Answer 2

In case of delayed payment of tax, interest is payable @ 18% per annum from the date following the due date of payment to the actual date of payment of tax.

However, interest is payable only on the short-paid tax which is paid through electronic cash ledger if return under section 39 is furnished after the due date.

- (i) In the given case, PQR Ltd. has furnished the return for August 2020 by the due date. Hence, interest is payable on the entire amount of short payment of ₹ 10,000, as under:

$$= ₹ 10,000 \times 18\% \times 61/365 = ₹ 300.82 \text{ or } 301 \text{ (rounded off)}$$
- (ii) If PQR Ltd. has furnished the return for August 2020 after the due date, interest is payable only on the short payment which is paid through electronic cash ledger, i.e. ₹ 7,500, as under:

$$= ₹ 7,500 \times 18\% \times 61/365 = ₹ 225.62 \text{ or } 226 \text{ (rounded off)}$$

Question 3

"All taxpayers are required to file GSTR-1 only after the end of the current tax period." Comment on the validity of the above statement with reference to GST law. (PYP 3 Marks May'22, PYP 2 Marks Nov'18)

Answer 3

The statement is partially valid.

A taxpayer cannot file Form GSTR-1 before the end of the current tax period. However, following are the exceptions to this rule:

- a. Casual taxpayers, after the closure of their business
- b. Cancellation of GSTIN of a normal taxpayer.

A taxpayer who has applied for cancellation of registration will be allowed to file Form GSTR-1 after confirming receipt of the application.

Question 4

Explain the consequences, if the taxable person under GST law files the GST return under Section 39(1) of the CGST Act, 2017, but does not make payment of self- assessment tax. (PYP 2 Marks, Nov'19)

Answer 4

If the taxable person under GST law files the GST return under section 39(1) of the CGST Act, 2017, but does not pay the self-assessment tax, the return is not considered as a valid return. Since the input tax credit can be availed only on the basis of a valid return, the taxable person, in the given case, will not be able to claim any input tax credit.

He shall pay interest, penalty, fees or any other amount payable under the CGST Act for filing return without payment of tax.

Question 5

"In Form GSTR-1, submission of invoice-wise details of outward supplies is mandatory for all kind of invoices issued during the tax period. "Comment on the validity of the above statement with reference to GST laws. (PYP 3 Marks, Nov'20)

Answer 5

The said statement is not valid.

In respect of following outward supplies, consolidated details and not invoice-wise details are required to be uploaded in the GSTR-1:

- (a) Intra-State supplies made to unregistered persons for each rate of tax
- (b) Inter-State supplies made to unregistered persons with invoice value up to ₹

Paper 3 - Taxation

2,50,000 for each rate of tax separately for each State.

Question 6

Batra Ltd., a normal taxpayer, is winding up its business in Rajkot. The Tax Consultant of Batra Ltd. has suggested that Batra Ltd. will have to file either the annual return or the final return at the time of voluntary cancellation of registration in the State of Rajkot.

Do you agree with the stand taken by Tax Consultant of Batra Ltd.? Offer your comments. Ignore the aggregate turnover of Batra Ltd. (RTP Nov '23)

Answer 6

No, the stand taken by Tax Consultant of Batra Ltd. is not correct.

Annual return is required to be filed by every registered person paying tax as a normal taxpayer. Final return is filed by the registered persons who have applied for cancellation of registration within three months of the date of cancellation or the date of cancellation order.

In the given case, Batra Ltd., a registered person, is winding up its business and has thus, applied for cancellation of registration. Therefore, it is required to file both annual return and final return.

Question 7

- (a) **Mr. Ayushman, a registered person having intra-State aggregate turnover of ₹ 1.2 crores in the preceding financial year did not file GSTR-3B for the month of September, 2021 by 10th November, 2021. The amount of tax payable for the month of September, 2021 is ₹ 8 lakh. All his supplies are intra-State supplies. Is there any late fee payable for the same? If yes, what is the amount of late fee payable?**
- (b) **Will your Answer be different in (a), if Mr. Ayushman has intra-State aggregate turnover of ₹ 5 crores in the preceding financial year?**
- (c) **Will your Answer be different in (a), if total amount of tax payable in the GSTR-3B for the month of September is Nil? (RTP May '22)**

Answer 7

(I) As per section 47 of the CGST Act, 2017 read with Notification No 19/2021 CT dated 01.06.2021, the registered persons whose aggregate turnover is \leq ₹ 1.5 crores in the preceding FY, and who fails to furnish the returns required under section 39 by the due date shall pay a late fee of ₹ 2,000 (₹ 1,000 each under CGST & SGST or ₹ 2,000 under IGST).

Thus, late fee is payable in the given case and the amount of late fee payable is ₹ 2,000 (₹ 1,000 each under CGST & SGST).

(II) As per section 47 of the CGST Act, 2017 read with Notification No 19/2021 CT dated 01.06.2021, the registered persons whose aggregate turnover is more than ₹ 1.5 crores but less than equal to ₹ 5 crores in the preceding FY, and who fails to furnish the returns required under section 39 by the due date shall pay a late fee of ₹ 5,000 (₹ 2,500 each under CGST & SGST or ₹ 5,000 under IGST).

Thus, late fee is payable in the given case and the amount of late fee payable is ₹ 5,000 (₹ 2,500 each under CGST & SGST).

(III) As per section 47 of the CGST Act, 2017 read with Notification No 19/2021 CT dated 01.06.2021, any registered person whose total amount of tax payable in the GSTR-3B is Nil and who fails to furnish the returns required under section 39 by the due date shall pay a late fee of ₹ 500 (₹ 250 each under CGST & SGST or ₹ 500 under IGST).

Thus, late fee is leviable even if total amount of tax payable in the GSTR-3B for the month of September is Nil. The amount of late fee would be ₹ 500 (₹ 250 each under CGST & SGST).

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As per amendment Provided that no such rectification of any omission or incorrect particulars shall be allowed after the 30th day of November following the end of the financial year to which such details pertain, or the actual date of furnishing of relevant annual return, whichever is earlier.

Question 8

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. (RTP Nov '19)

Answer 8

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;
- (c) 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 (₹)	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 supplies 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 supplies 6 and 7
7	Mr. O, an unregistered person	Inter-State	2,50,000	

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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

Question 9

Briefly elaborate the provisions relating to nil GSTR-3B. (MTP 5 Marks March '23)

Answer 9

Filing of GSTR-3B is mandatory for all normal and casual taxpayers, even if there is no business activity in any particular tax period. For such tax period(s), a Nil GSTR-3B is required to be filed.

A Nil GSTR-3B does not have any entry in any of its tables. For example, a Nil GSTR-3B for a tax period cannot be filed, if the taxpayer has made any outward supply (including nil-rated, exempt or non-GST supplies) or has received any supplies which are taxable under reverse charge or it intends to take ITC etc.

A Nil GSTR-3B can be filed through an SMS using the registered mobile number of the taxpayer. GSTR-3B submitted through SMS is verified by registered mobile number-based OTP facility.

A taxpayer may file Nil GSTR-3B, anytime on or after the 1st day of the subsequent month/quarter for which the return is being filed for.

Question 10

Mr. X, a regular tax payer, did not make any taxable supply during the month of July. Is he required to file any goods and service tax return? (MTP 3 Marks, Oct'19)

Answer 10

A regular tax payer is required to furnish a return u/s 39 for every month even if no supplies have been effected during such period. In other words, filing of Nil return is also mandatory.

Therefore, Mr. X is required to file monthly return even if he did not make any taxable supply during the month of July.

Question 11

What are the cases where a registered person is debarred from furnishing details of outward supplies in GSTR-1/IFF? (MTP 6 Marks, Nov'21)

Answer 11

- (i) A registered person shall not be allowed to furnish the details of outward supplies in Form GSTR-1, if he has not furnished the return in Form GSTR-3B for preceding two months.
- (ii) A registered person, opting for QRMP scheme shall not be allowed to furnish the details of outward supplies in Form GSTR-1 or using IFF, if he has not furnished the return in Form GSTR-3B for preceding tax period.
- (iii) A registered person, who is restricted from using the amount available in electronic credit ledger to discharge his liability towards tax in excess of 99% of such tax liability under rule 86B of the CGST Rules, shall not be allowed to furnish the details of outward supplies in Form GSTR-1 or using IFF, if he has not furnished the return in Form GSTR-3B for preceding tax period.

Question 12

Discuss the eligibility for QRMP scheme under GST? (MTP 5 Marks, Oct'21)

Answer 12

Registered persons (other than supplier of online information and database access or retrieval services (OIDAR) located in non-taxable territory and providing such services to a non-taxable online recipient), having an aggregate turnover up to ₹ 5 crore in the preceding financial year, and who have opted to furnish quarterly return under QRMP

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scheme are eligible for QRMP scheme as the class of persons who shall furnish a return for every quarter from January, 2021 onwards, and pay the tax due every month. Thus, the taxpayers whose aggregate turnover is up to ₹ 5 crore in the preceding financial year are eligible for QRMP scheme. For computing aggregate turnover, details furnished in returns for tax periods in the preceding financial year shall be taken into account.

Question 13

If a return has been filed, how can it be revised if some changes are required to be made? (MTP 5 Marks, May'20 , March '19, March'21, Oct'22, Sep'23)

Answer 13

In GST 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 amendment in the details of those individual 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 in the tables specifically provided for the purposes of amending previously declared details. Omission or incorrect particulars discovered in the returns filed under section 39 of the CGST Act, 2017 can be rectified in the return to be filed for the month 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. However, no such rectification of any omission or incorrect particulars is allowed after the due date for furnishing of return for the month of September or second quarter (in case of quarterly filers) following the end of the financial year to which such details pertain, or the actual date of furnishing of relevant annual return, whichever is earlier.

As per amendment Provided that no such rectification of any omission or incorrect particulars shall be allowed after the 30th day of November following the end of the financial year to which such details pertain, or the actual date of furnishing of relevant annual return, whichever is earlier.

Question 14

Elaborate the provisions relating to annual return contained under section 44 of the CGST Act, 2017.(MTP 5 Marks Sep'22)

Answer 14

Every registered person, other than an input service distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person shall furnish an annual return which may include a self-certified reconciliation statement, reconciling the value of supplies declared in the return furnished for the financial year, with the audited annual financial statement for every financial year electronically, within prescribed time, form and manner. However, the Commissioner may exempt any class of registered persons from filing annual return. Further, any department of the Central Government or a State Government or a local authority, whose books of account are subject to audit by the Comptroller and Auditor-General of India, or an auditor appointed for auditing the accounts of local authorities under any law for the time being in force, is not required to furnish annual return.

Question 15

M/s Cavenon Enterprises, a registered supplier of designer wedding dresses under regular scheme, has aggregate annual turnover of ₹ 30 lakh in the preceding financial year. It is of the view that in the current financial year, it is permitted

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to file its monthly statement of outward supplies – GSTR-1 - on a quarterly basis while its accountant advises it to file the same on a monthly basis. You are required to advise M/s Cavenon Enterprises on the same.

During a given tax period in the current financial year, owing to an off-season, M/s Cavenon Enterprises has not made any taxable supply. Therefore, M/s Cavenon Enterprises opines that no return under GST is required to be filed for the said period. You are required to examine the technical veracity of the opinion of M/s Cavenon Enterprises. (RTP May '19)

Answer 15

Section 37 of the CGST Act, 2017 stipulates that GSTR-1 for a particular month is required to be filed on or before the 10th day of the immediately succeeding month, i.e. on a monthly basis.

However, presently, as a measure of easing the compliance requirement for small tax payers, GSTR-1 has been allowed to be filed quarterly by small tax payers with aggregate annual turnover up to ₹ 1.5 crore in the preceding financial year or the current financial year. Tax payers with annual aggregate turnover above ₹ 1.5 crore will however continue to file GSTR- 1 on a monthly basis.

In view of the same, M/s Cavenon Enterprises can file its GSTR-1 on quarterly basis as its aggregate turnover does not exceed ₹ 1.5 crore in the preceding financial year.

Further, GSTR-1 needs to be filed even if there is no business activity in a tax period. Thus, in the present case, even if no supply has been made by M/s Cavenon Enterprises, a nil return is required to be filed for the relevant tax period.

Question 16

- (a) **Miss Kashi is a registered intra-State supplier of goods in Haryana. During the months of August and September, she was out of station on a religious pilgrimage with her family for 55 days. Thus, no business transaction was made during August. Miss Kashi is of the opinion that as there is no transaction, there is no need to file monthly return [GSTR-3B] for the month of August. However, her tax consultant has advised her to file nil GSTR-3B. Whether the advice given by tax consultant is correct? Explain.**
- (b) **Will your Answer in (a) change, if Miss Kashi has placed an order for some purchases during August over her mobile phone, which has been received in her premises and she intends to take input tax credit on the same?**
- (c) **Assuming in (a) above, Miss Kashi does not have internet facility in her mobile and there is no facilitation centre notified by the Commissioner, whether no return is required to be filed in the absence of means to file return? Explain. (RTP May '21)**

Answer 16

- (a) The advice given by tax consultant is correct.

Under GST law, filing of GSTR-3B is mandatory for all normal and casual taxpayers, even if there is no business activity in any particular tax period. For such tax period(s), a Nil GSTR-3B is required to be filed.

Therefore, in the given case, even though Miss Kashi was out of station on a religious pilgrimage with her family for 55 days and thus, could not do any business transaction during the month of August, she is still required to file Nil GSTR-3B for that month.

- (b) Nil GSTR-3B means that the return has nil or no entry in all its Tables. Since in the present case, Miss Kashi has received certain purchases, she cannot file Nil GSTR-3B, as the said purchases will need to be disclosed in the "Table for Eligible ITC" in GSTR-3B.

Thus, Miss Kashi is required to file monthly return, GSTR-3B for the month of August.

- (c) GSTR-3B can be submitted electronically on the common portal, either directly or through a Facilitation Centre notified by the Commissioner. Further, a Nil GSTR-3B can be filed through an SMS using the registered mobile number of the taxpayer.

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Thus, Miss Kashi is required to file Nil GSTR-3B for the month of August through an SMS using her registered mobile number even though there is no internet facility in her mobile and no Facilitation Centre notified by the Commissioner.

Question 17

The due date for payment of tax by a person paying tax under section 10 of the CGST Act, 2017, i.e. a composition supplier is aligned with the due date of return to be filed by the said person. Discuss the correctness or otherwise of the statement. (RTP Nov '20)

Answer 17

The statement is not correct. Every registered person paying tax under section 10, i.e. a composition supplier, is required to file a return annually in Form GSTR-4. Form GSTR-4 for a financial year should be furnished by 30th April of the succeeding financial year. However, a composition supplier is required to pay his tax on a quarterly basis. A quarterly statement for payment of self-assessed tax in GST CMP-08 is required to be furnished by 18th day of the month succeeding such quarter. Therefore, while the return is to be furnished annually, payment of tax needs to be made on a quarterly basis, by a composition supplier.

Question 18

The aggregate turnover of Mr. Prithvi, a registered person for the FY 2017-18 and 2018-19 were ₹ 140 lakh and ₹ 170 lakh respectively. He has not filed the annual return (GSTR-9) under section 44(1) of CGST Act, 2017 before the due date. Discuss the penal provisions, if any, for not filing the returns before the due date. (PYP 3 Marks, Jan'21)

Answer 18

The penal provisions for not filing the annual return (GSTR-9) under section 44(1) of the CGST Act, 2017 before the due date are as under: -

(a) ₹ 100 for every day during which such failure continues,

or

(b) 0.25% of the turnover of the registered person in the State/Union Territory whichever is lower.

Note: - It may be noted that filing of GSTR-9 has been made voluntary in respect of financial years 2017-18 and 2018-19 for the registered persons whose turnover is less than ₹ 2 crores and who have not furnished the said annual return before due date. Here, the annual return is deemed to be furnished on the due date if it has not been furnished before the due date.

Question 19

Discuss the provisions of Section 39(9) of the CGST Act, 2017, relating to rectification of errors/omissions in GST returns already filed and also state its exceptions. State the time limit for making such rectification. (PYP 5 Marks, Nov'19)

Answer 19

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. Exception Section 39(9) of the CGST Act does not permit rectification of error/omission discovered on account of scrutiny, audit, inspection or enforcement activities by tax authorities. The time limit for making such rectification is earlier of the following dates:

(x) ~~Due date for filing return for September month of next financial year or~~

(xi) ~~Actual date of filing annual return~~

As per amendment Provided that no such rectification of any omission or

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incorrect particulars shall be allowed after the 30th day of November following the end of the financial year to which such details pertain, or the actual date of furnishing of relevant annual return, whichever is earlier.

Question 20

Explain who is required to furnish final return, time limit for filing of final return and late fee for delay in filing final return. (PYP 5 Marks, July'21, PYP 5 Marks May'18, MTP 3 Marks Aug'18)

Answer 20

Every registered person who is required to furnish a return and whose registration has been surrendered or cancelled is required to file a final return.

The final return has to be filed within 3 months of the:

- (iv) date of cancellation or
- (v) date of order of cancellation whichever is later.

Quantum of late fee for not filing the final return is as follows:

- (i) ₹ 100 for every day during which such failure continues or
- (ii) ₹ 5,000 whichever is lower.

An equal amount of late fee is payable under the respective SGST/UTGST Act as well.

Question 21

List the details of outward supplies which can be furnished using Invoice Furnishing Facility (IFF). Also briefly list the cases where a registered person is debarred from furnishing details of outward supplies in GSTR-1/IFF. (PYP 5 Marks Nov '22)

Answer 21

Details of outward supplies which can be furnished using IFF are as follows:

- (a) invoice wise details of inter-State and intra-State supplies made to the registered persons;
- (b) debit and credit notes, if any, issued during the month for such invoices issued previously.

Cases where a registered person is debarred from furnishing details of outward supplies in GSTR-1/using IFF:

- (i) A registered person is not allowed to furnish Form GSTR-1, if he has not furnished the return in Form GSTR-3B for the preceding 2 months²/ for the preceding 1 month³.
- (ii) A registered person, opting for QRMP (Quarterly Return Monthly Payment) scheme is not allowed to furnish Form GSTR-1/using IFF, if he has not furnished the return in Form GSTR-3B for preceding tax period.

² Position of law till 31.12.2021

³ Position of law w.e.f. 01.01.2022

Question 22

Mr. Sumit is a registered dealer in the state of Punjab. In the month of May, he decides to apply for QRMP scheme. As he wants to switch to QRMP scheme, he had not filed his returns for the months of May and June.

Please guide to Mr. Sumit regarding the following:

- (A) **Conditions and restrictions of QRMP scheme.**
- (B) **Manner of exercising option of QRMP scheme. (PYP 3 Marks May '23)**

Answer 22

- (A) Conditions and restrictions of QRMP scheme

Mr. Sumit has to fulfil the following conditions and restrictions for opting for QRMP scheme:

- His aggregate annual turnover (PAN based) is up to ₹ 5 crore in the preceding financial year.

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- He has furnished the return for the preceding month, as due on the date of exercising such option.
 - He is not required to exercise the option every quarter.
- (B) Manner of exercising option of QRMP scheme
Registered person – Mr. Sumit - intending to opt for QRMP scheme for any quarter should indicate his preference for furnishing of return on a quarterly basis from 1st day of the 2nd month of the preceding quarter till the last day of the 1st month of the quarter for which the option is being exercised.

Section - B

Question 1

Mr. X, a registered taxpayer under regular scheme, did not make any taxable supply during the month of July. Is he required to file a GSTR-3B?

Answer 1

A registered taxpayer is required to furnish a return u/s 39 for every month even if no supplies have been effected during such period. In other words, filing of Nil GSTR-3B is also mandatory.

Therefore, Mr. X is required to file GSTR-3B even if he did not make any taxable supply during the month of July.

Question 2

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

Answer 2

In GST 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 amendment in the details of those individual 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 in the tables specifically provided for the purposes of amending previously declared details.

As per section 39(9), omission or incorrect particulars discovered in the returns filed u/s 39 can be rectified in the return to be filed for the month 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. However, no such rectification of any omission or incorrect particulars is allowed after the due date for furnishing of return for the month of September or second quarter (in case of quarterly filers) following the end of the financial year to which such details pertain, or the actual date of furnishing of relevant annual return, whichever is earlier

As per amendment Provided that no such rectification of any omission or incorrect particulars shall be allowed after the 30th day of November following the end of the financial year to which such details pertain, or the actual date of furnishing of relevant annual return, whichever is earlier.

Question 3

M/s Cavenon Enterprises, a registered supplier of designer wedding dresses under regular scheme, has aggregate annual turnover of ` 30 lakh in the preceding financial year. It is of the view that in the current financial year, it is permitted to file its statement of outward supplies (GSTR-1) on a quarterly basis while its accountant advises it to file the same on a monthly basis. You are required to advise M/s Cavenon Enterprises on the same. (old & New)

Answer 3

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Section 37 stipulates that GSTR-1 for a particular month is required to be filed on or before the 10th day of the immediately succeeding month, i.e. on a monthly basis. However, presently, as a measure of easing the compliance requirement for small taxpayers, the details of outward supplies of goods or services or both to a registered person can be furnished, for the first and second months of a quarter, up to a cumulative value of fifty lakh rupees in each of the months, using invoice furnishing facility (IFF) electronically on the common portal, from the 1st day of the month succeeding such month till the 13th day of the said month. The taxpayers opting for furnishing details of outward supply on quarterly basis can file GSTR 1 on quarterly basis. The option to file return on quarterly basis is available for taxpayers having aggregate turnover up to ₹ 5 crores in preceding financial year. In view of the same, M/s Cavenon Enterprises can file its GSTR-1 on quarterly basis if it has opted to furnish the outward supply related details on quarterly basis and filing IFF on monthly basis as its aggregate turnover does not exceed ₹ 5 crore in the preceding financial year.

Question 4

Mr. Kohli is a registered supplier in the State of Gujarat. He is filing GSTR-1 every month. During the month of February, he went out of India and thus, could not do any business transaction during that month. He believes that as there is no transaction, there is no need to file GSTR-1 for the month of February. Is he correct? Explain. (old & New)

Answer 4

No, Mr. Kohli is not correct. GSTR-1 needs to be filed even if there is no business activity in the tax period. Therefore, in the given case, even though Mr. Kohli was out of India and thus, could not do any business transaction during the month of February, he is still required to file GSTR-1 for that month.

Question 5

Mr. Kalpesh is a registered dealer in Kerala paying tax under composition levy from 1st April. However, he opts to pay tax under regular scheme from 1st December. Is he liable to file GSTR-4 for the month of November? Discuss. (old & New)

Answer 5

Where a taxpayer opts to withdraw from the composition scheme, he has to file GSTR-4 for the period prior to his opting for payment of tax under regular scheme. Therefore, in the given case, Mr. Kalpesh is liable to file GSTR-4 for the month of October since he was paying tax under composition scheme during the month of October.

Question 6

Mrs. Zarina, a registered dealer in Rajasthan, did not file GSTR-3B for the month of June but she wants to file GSTR-3B for the month of July. Is it possible? Answer with reference to section 39 of the CGST Act. (old & New)

Answer 6

As per section 39(10), a registered person is not allowed to furnish a return for a tax period if the return for any of the previous tax periods has not been furnished by him. Therefore, in the given case, Mrs. Zarina cannot file GSTR-3B for July if she has not filed GSTR-3B for the preceding month, i.e., June.

As per amendment- A registered person shall not be allowed to furnish a return for a tax period if the return for any of the previous tax periods or the details of outward supplies under sub-section (1) of section 37 for the said tax period has not been furnished by him:

Provided that the Government may, on the recommendations of the Council, by notification, subject to such conditions and restrictions as may be specified therein, allow a registered person or a class of registered persons to furnish the return, even if he has not furnished the returns for one or more previous tax

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periods or hasnot furnished the details ofoutward supplies under sub- section (1) of section 37 for the said tax period.

Question 7

X has not made any outward supply during the month of September. However, X has procured certain input services during the month. X is of the opinion that he can file Nil GSTR-3B for the month of September through SMS.

Whether the understanding of X is correct? Explain.

Answer 7

Nil GSTR-3B means that the return has nil or no entry in all its Tables. Since in the present case X has received certain input services, he cannot file Nil GSTR- 3B through SMS as the said input services will need to be disclosed in the Table for Eligible ITC in GSTR-3B.

Question 8

A is a chartered accountant in practice and is registered under GST. On a query regarding return filing process by a potential client, A has represented him as a GST practitioner. A is of the view that since he is a qualified chartered accountant with a GST registration in the name of his proprietorship firm, he also qualifies as GST practitioner. Is the understanding of A correct? Discuss.

Answer 8

The understanding of A is not correct.

A chartered accountant can become a GST practitioner (GSTP). However, holding a certificate of practice as a chartered accountant and having GST registration does not imply that such chartered accountant is a GST practitioner as well. For becoming a GSTP, even a chartered accountant in practice has to follow the enrolment process of GSTP as provided under the GST law and only upon approval of such enrolment can a chartered accountant represent himself as a GSTP.

Question 9

Quicktax, a GST return filing service provider, has asked its clients to provide the scanned copies of the tax invoices issued to B2B customers for uploading on the GST portal and filing the return. Whether the process followed by Quicktax is correct?

Answer 9

No, the process followed by Quick tax is not correct.

The registered persons supplying goods or services to B2B customers are required to upload the invoice wise details of supplies made during the tax period. However, there is no requirement to upload the scanned copies of the invoices issued to the customers on the GST portal at the time of filing returns. Only information required as per GST returns is to be captured in the return filing utility and the same is to be uploaded on the GST portal and not the scanned copies of the actual invoices.

Question 10

X Ltd. is winding up its business in Rajasthan. The Tax Consultant of X Ltd. has suggested that X Ltd. will have to file either the annual return or the final return at the time of voluntary cancellation of registration in the state of Rajasthan. Do you agree with the stand taken by Tax Consultant of X Ltd.? Offer your comments.

Answer 10

No, the stand taken by Tax Consultant of X Ltd. is not correct.

Annual return is required to be filed by every registered person paying tax as a normal taxpayer. Final return is filed by the registered persons who have applied for cancellation

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of registration within three months of the date of cancellation or the date of cancellation order.

In the given case, X Ltd., a registered person, is winding up its business and has thus, applied for cancellation of registration. Therefore, it is required to file both annual return and final return.

Question 11 (Illustration)

Ms. Pragya, a taxpayer registered under regular scheme (Section 9), files GSTR-3B for the month of October on 20th November. After filing the return, she discovers that the value of a taxable supply has been under-reported therein. Ms. Pragya now wants to file a revised GSTR-3B. Examine the scenario and give your comments.

Answer 11

Under GST law, a return once filed cannot be revised. However, the details of those transactions that are required to be amended can be changed in any of the future GSTR-1s. For this purpose, specific tables are provided in GSTR-1 to amend previously declared details.

Thus, Ms. Pragya cannot revise GSTR-3B filed by her for the month of October.

However, she can amend the details of the taxable supply, which was under-reported, in GSTR-1 for the month of November. The tax payable on account of such error will be paid along with interest in GSTR-3B for the month of November.

Question 12

“All taxpayers are required to file GSTR-1 only after the end of the tax period.” Examine the validity of the statement. (New)

Answer 12

The statement is partially valid.

A taxpayer cannot file Form GSTR-1 before the end of the current tax period. However, following are the exceptions to this rule:

- a. Casual taxpayers, after the closure of their business
- b. Cancellation of GSTIN of a normal taxpayer.

A taxpayer who has applied for cancellation of registration will be allowed to file Form GSTR-1 after confirming receipt of the application.

Question 13

List the details of outward supplies which can be furnished using Invoice Furnishing Facility (IFF). (New)

Answer 13

Details of outward supplies which can be furnished using IFF are as follows:

- (a) invoice wise details of inter-State and intra-State supplies made to the registered persons;
- (b) debit and credit notes, if any, issued during the month for such invoices issued previously.



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