

Question No.1:**Income from House Property:**

| | | |
|------------------------------------|---------------|--------|
| Arrears of rent | 75,000 | |
| Less: Standard Deduction u/s 24(a) | <u>22,500</u> | 52,500 |

Income from PGBP:

| | | |
|-------------------------------------|-----------------|-----------------|
| Salary as working partner from firm | | 90,000 |
| Net Profit as per P & L A/c | 4,32,000 | |
| Add- Personal expenses of Car | 10,000 | |
| Bonus debited in P & L A/c | 48,000 | |
| Advance Tax | 70,000 | |
| Dep. of car | 3,00,000 | |
| Dep. of Machinery | <u>1,25,000</u> | |
| | 9,85,000 | |
| Less- Dep. on Machinery(computed) | 1,68,750 | |
| Dep. on Car (computed) | 48,000 | |
| Bonus paid (actual) | 33,000 | |
| Interest on Bank FD | 45,000 | |
| Agriculture income | 60,000 | |
| Pension from LIC (Jeevan Dhara) | <u>24,000</u> | 6,06,250 |
| | | <u>6,96,250</u> |

Income from other sources:

| | | |
|---------------------------------|---------------|-----------------|
| Interest on Capital | 3,00,000 | |
| Interest on FD (gross) | 50,000 | |
| Pension from LIC (Jeevan Dhara) | <u>24,000</u> | <u>3,94,000</u> |

Gross Total Income 11,42,750

Less: Deduction u/s 80C to 80U

| | | |
|------------------------------|----------|-------------------|
| (i) 80C -50,000 | | |
| (ltd. To 20% of sum assured) | | |
| = (50,000 - 10,000) | (40,000) | |
| (ii) 80CC (Pension) | (70,000) | |
| (iii) 80D (Ins.premium) | (20,000) | <u>(1,20,000)</u> |

Total Income 10,22,750

Actual Tax liability:

1. Non-Agri + Agri = 10,82,750
Tax on above = 2,28,825
2. Exemption limit + Agri = 1,60,000 + 60,000 = 2,20,000
Tax on above = 6,000
3. Tax payable = 2,28,825 - 6,000 = 2,22,825

| | | |
|------------------|--------------|---------------|
| Add: EC @ 2% | | 4,457 |
| SIIEC @ 1% | | <u>2,228</u> |
| Total Tax | | 2,29,510 |
| (-) Adv. Tax | 70,000 | |
| TDS | <u>5,000</u> | |
| | 75,000 | <u>75,000</u> |
| Bal. Tax Payable | | 1,54,000 |

Interest u/s 234A and 234B are payable as due advance Tax has not been deposited as per due dates given below:

| | |
|---------------|--|
| Upto 15/09/09 | 30% of Total Tax Liability |
| Upto 15/12/09 | 60% of Total Tax Liability |
| Upto 15/03/10 | 100% of Total Tax Liability (Inst. On only upto 90%) |

Working Notes: -

Assumptions-

- 1) It is assumed that Bonus paid upto 28.09.09 is Rs. 33,000 and balance Rs. 15,000 was paid on 11.10.09.
- 2) Rate of depreciation on car – 20% & Machinery 15%

Calculation of Depreciation on Machinery:-

| | Full Rate | Half Rate |
|------------|-----------------|-----------------|
| Op. Bal. | 6,50,000 | |
| + 23/09/09 | 2,00,000 | |
| + 12/11/09 | | 3,00,000 |
| + 12/04/09 | <u>1,25,000</u> | |
| | <u>9,75,000</u> | <u>3,00,000</u> |

| | | |
|---|----------|--------|
| @ | 15% | 15%/2 |
| = | 1,46,250 | 22,500 |
| = | 1,68,750 | |

Answer 2(a)

| | | |
|--|---|-----------------|
| Sale value of Coffee | | 22,00,000 |
| (-) Dep. on Car | | |
| $3,00,000 \times \frac{20}{100} \times \frac{80}{100}$ | - | 48,000 |
| (-) Exp. On Car Repairing & Maint. | = | 40,000 |
| $50,000 \times \frac{80}{100}$ | | |
| (-) Dep. on M/c | - | 2,25,000 |
| $15,00,000 \times \frac{15}{100}$ | | |
| (-) Coffee growing | = | 3,10,000 |
| (-) Curing Coffee | = | <u>3,00,000</u> |

| | |
|-----------|-----------|
| 12,77,000 | |
| ↓ | ↓ |
| Agri. | Non-Agri. |
| 60% | 40% |
| 7,66,200 | 5,10,800 |

| | |
|------------|-----------|
| WDV of M/c | 12,75,000 |
| Car | 2,40,000 |

Answer 2(b)**Computation of Capital Gains**

(For the assessment year 2010-11)

| | Land Portion | Building Portion |
|--|--------------|------------------|
| Sale consideration (As decided by Revenue Divisional Office) | 22,00,000 | 10,00,000 |
| Less: Indexed Cost of acquisition $5,19,000 \times \frac{632}{519}$ | 6,32,000 | |
| Cost of Construction | | 14,00,000 |
| Long Term Capital Gain | 15,68,000 | |
| Short Term Capital Gain | | (4,00,000) |

As per section 74, short term capital loss can be set-off against long term capital gain of the current assessment year, therefore, the short term capital loss of Rs. 4,00,000 shall be adjusted with Rs. 15,68,000

∴ Net Long Term Capital Gain = Rs. 11,68,000

Tax payable in the hands of Mr. Raj Kumar –

As per section 112, Long term capital gains are taxed @ 20%

∴ 20% of Rs. 11,68,000 = Rs. 2,33,600

∴ Mr. Raj Kumar will be liable to pay tax of Rs. 2,33,600 for the assessment year 2010-11.

[Based on assumption that Mr. Raj Kumar is having other income more than Rs. 1,60,000]

Answer No.3:

| | ROR | NOR | NR |
|--|------------------|------------------|------------------|
| a) Profit on sale of shares in Indian Co. received in Germany | 15,000 | 15,000 | 15,000 |
| b) Dividend from a Japanese Co. 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 Co. | | | |
| e) Agricultural Income from lands in Gujrat | exempt u/s 10(i) | Exempt u/s 10(i) | exempt u/s 10(i) |

- Note:**
- Agricultural income is exempt u/s 10(i).
 - Dividend income received from an Indian Co. is exempt u/s 10(34)

Ans4(a): Concessions granted to Transport Operators from 1st October 2009 in the context of cash payment u/s 40A [3]:

- 1) Cash payment allowed normally u/s 40A [3] is Rs. 20,000/- whereas concession granted to transport operators u/s 40A [3] is Rs. 35,000/- i.e. any expenditure incurred by the assessee of which payment is made on one day otherwise than by Account Payee Cheque or Account Payee Draft exceed Rs.35,000/- deduction shall be allowed in respect of such expenditure.
- 2) If the transport Operator submits his Pan to the payee no tax shall be deducted at source u/s 149C from payment made to such contractor w.e.f. 1st October, 2009.
- 3) In addition to above, if the contractor is an individual or HUF, TDS shall be made only at the rate of 1% and not at the rate of 2% w.e.f. 1st October,2009.

Ans4(b): the conditions to be fulfilled by the charitable trust u/s 12A for applicability of exemptions provisions contained in section 11 & 12 are as follows:

- 1) Application to be made to the commissioner of Income Tax within one year from the date of creation of trust.
- 2) Accounts of trust have been audited by a Chartered Accountant as per section 288(2) and such audit report is submitted.

Ans4(c): the particulars required to be furnished with the return of income as per Section 139(6) are as follows:

- 1) Particulars of income exempt from tax.
- 2) Particulars of assets of prescribed nature for e.g. Bank Account, Credit Card.
- 3) Expenditure exceeding the prescribed limits.
- 4) Such other outgoing as may be prescribed.

Question No.5:

- (a) Service Tax extends to the whole of India except the State of Jammu and Kashmir. It includes the services provided in twelve nautical miles of Indian Territorial Waters.
- (b) Services provided to any organization while performing statutory functions under the provisions of any law or any services provided to any organization or to RBI or by RBI is also exempt from services.
- (c) An assessee may submit a revised return in Form ST-3 in triplicate to correct a mistake within a period of 90 days from the date of submission of original return under Rule 7.
- (d) It means any training or coaching provided by a commercial training or coaching center. It means any institute providing commercial training or coaching for imparting skill or knowledge or lessons on any subject other than sports, with or without issuance of a certificate.

Question NO.6(b):

(i) Applicability: 16.06.2005

Scope:- Taxable service means any service provided or to be provided by club or association to

- To its members
- By any club or association
- In relation to provision of services, facilities or advantages
- For a subscription or any other amount.

Exceptions:

- Any body established under any law for the time being in forced.
- Any person or body of individuals engaged in the activity of trade unions, agriculture or horticulture.
- Any person or body of individual associated with press or media.
- Any person or body of individuals engaged in any activity having objects which are in the nature of public service or are of a charitable, religious or political nature.

(iii)

| Period | Penalty (in Rs.) |
|--|---|
| 1. For less than 15 days | 500 |
| 2. For more than 15 days but less than 30 days | 1000 |
| 3. For more than 30 days | 100 for every day for which the default continues |

Note: The maximum penalty cannot exceed Rs.2,000

Question No.7:

Addition method: In this method the items aggregated are as follows:-

- Factor payments
- Depreciation
- Profits

The method is used mainly when the clear details are given for the addition made.

Question No.7(b):

Yes, the threshold limit fixed is Rs.5,00,000 and 10,00,000 as the case may be.

The same is provided as it reduces the administrative cost as many dealers whose turnover does not exceed Rs.5,00,000 are not allowed to get themselves registered under the VAT Scheme in this way the administrative cost is reduced.

Question No.7(c):

No, as soon as a dealer opts for a composition scheme the VAT chain gets discontinued as for seller he is not allowed to take any input tax credit, and for buyers he does not get any invoice that includes input tax credit, and thus it increased the price of the commodity.

Question No.7(d):

Yes, as the VAT demand a lot of records i.e. why the dealer to take the advantage of input tax credit he needs to keep a proper records for all the invoices and that is why for the Government it becomes certain that what are the tax coming into there treasury and thus it is greatly helpful to Government.

Question No.8(a)

| | |
|---------------------|-----------------|
| 1. Purchase Goods A | 2,00,000 |
| Profit | <u>50,000</u> |
| Sale Price | <u>2,50,000</u> |

| | |
|------------------------------|-----------------|
| 2. Purchase Goods B (25,000) | 2,00,000 |
| Profit | <u>20,000</u> |
| Sale Price | 2,20,000 |
| Output VAT @ 12.5% | <u>27,500</u> |
| Invoice Valuc | <u>2,47,500</u> |

VAT liability

| | |
|----------------------|---------------|
| Output VAT | 27,500 |
| (-) Input Tax Credit | <u>25,000</u> |
| VAT payable | <u>25,00</u> |

| | |
|-----------------------------|-----------------|
| 3. Purchase Goods C (4,000) | 1,00,000 |
| Profit | <u>50,000</u> |
| Sales Price | 1,50,000 |
| Output Tax | <u>6,000</u> |
| Invoice Value | <u>1,56,000</u> |

VAT Liability

| | |
|----------------------|--------------|
| Output VAT | 6,000 |
| (-) Input Tax Credit | <u>4,000</u> |
| VAT payable | 2,000 |

Turnover: 2,50,000 + 2.20,000 + 1,50,000 = 6,20,000

Output VAT: 27,500 + 6,000 = 33,500

Input VAT: 25,000 + 4,000 + 1500 = 30,500

Net VAT Payable: 33,500 – 30,500 = 3,000

Question No.8(b)(1)

TAX EVASION: VAT requires maintenance of proper records for claiming credit of VAT paid on inputs and utilizing the same for payment of VAT on output. Hence, the suppression of purchase becomes difficult because no credit can be taken on suppressed purchase. This checks tax evasion.

TRANSPARENCY: The buyers are aware of tax paid by them while purchasing goods. The State Government also knows that exact amount of tax collected. Thus, VAT system is transparent.

NEUTRALITY: Merits of VAT with respect to neutrality means where all other things remain unchanged, the issue of tax liability does not vary the decision about the source of purchase. VAT, as such, eliminates the cascading effect of taxation, thereby making the decision of an investor tax neutral.

Question No.8(b)(2)

- (a) Helpful for availing input tax credit
- (b) It ensures proper maintenance of books of records.
- (c) It prevents suppressed production and purchases, in order to avail input tax credit.
- (d) Helpful for checking the tax evasion
- (e) It ensures certainty to the State Government regarding payment of VAT

Question No.8(b)(3):

If the consignor transfer any stock under the VAT scheme or if any stock transfer is from head office to branch under the VAT scheme, then input tax credit in excess of 4% is available.