

PAPER 4: TAXATION

SECTION A: INCOME TAX LAW

The Income-tax law, as amended by the Finance Act, 2022, including significant notifications/circulars issued upto 31st October, 2022, is applicable for May, 2023 examination. The relevant assessment year for May, 2023 examination is A.Y.2023-24. The May, 2022 edition of the Study Material is based on the provisions of Income-tax law as amended by the Finance Act, 2022 and significant notifications/circulars issued upto 30.04.2022, and hence, the same is relevant for May 2023 examination. The Statutory Update containing significant notifications/circulars issued between 1.5.2022 and 31.10.2022 which are relevant for May, 2023 examination is webhosted at <https://resource.cdn.icai.org/72468bos58397.pdf>

QUESTIONS AND ANSWERS

Case Scenario

Kishore & Sons is a dealer of coal. Its turnover for the F.Y. 2021-22 was ₹ 12 crores. The State Government of Hyderabad granted a lease of coal mine to Kishore & Sons on 1.5.2022 and charged ₹ 11 crores for the lease. Kishore & Sons sold coal of ₹ 95 lakhs to M/s BAC Co. during the P.Y. 2022-23. M/s XYZ Ltd. purchased coal of ₹ 55 lakhs from Kishore & Sons for trading purpose in July 2022. Turnover of M/s XYZ Ltd. during the P.Y. 2021-22 was ₹ 12 crores. PAN is duly furnished by the buyer and seller to each other. Details of sale to and payments from M/s BAC Co. by Kishore & Sons are as follows:

S. No.	Date of sale	Date of receipt/ Payment	Amount (₹)
1	29.05.2022	10.05.2022	35,00,000
2	30.06.2022	10.07.2022	25,00,000
3	25.11.2022	25.10.2022	8,00,000
4	20.01.2023	22.01.2023	15,00,000
5	01.03.2023	15.02.2023	12,00,000

Turnover of M/s BAC Co. during the P.Y. 2021-22 was ₹ 11 crores. The above amounts were credited to Kishore & Sons account in the books of M/s BAC Co. on the date of sale. M/s BAC Co. furnishes a declaration to Kishore & Sons that coal is to be utilised for generation of power.

Based on the above facts, choose the **most appropriate answer** to Q. No. 1 to 5 –

1. Who is required to deduct/ collect tax at source in respect of lease of coal mine by the State Government of Hyderabad to Kishore & Sons and at what rate?

2

INTERMEDIATE EXAMINATION: MAY, 2023

- (a) State Government of Hyderabad is liable to collect tax at source @ 2% on ₹ 11 crores
 - (b) State Government of Hyderabad is liable to collect tax at source @0.1% on ₹ 10.50 crores, being the amount exceeding ₹ 50 lakhs
 - (c) Kishore & Sons is liable to deduct tax at source @0.1% on ₹ 10.50 crores, being the amount exceeding ₹ 50 lakhs
 - (d) Neither State Government of Hyderabad is liable to collect tax at source nor Kishore & Sons is liable to deduct tax at source
2. Is Kishore & Sons required to collect tax at source in respect of the sale transactions with M/s BAC Co. If yes, when and what is the amount of tax to be collected?
- (a) Yes; ₹ 1,000 on 30.6.2022, ₹ 800 on 25.10.2022, ₹ 1,500 on 20.1.2023 and ₹ 1,200 on 15.2.2023
 - (b) Yes; ₹ 35,000 on 10.5.2022, ₹ 25,000 on 30.6.2022, ₹ 8,000 on 25.10.2022, ₹ 15,000 on 20.1.2023 and ₹ 12,000 on 15.2.2023
 - (c) Yes; ₹ 1,000 on 10.7.2022, ₹ 800 on 25.10.2022, ₹ 1,500 on 22.1.2023 and ₹ 1,200 on 15.2.2023
 - (d) No, Kishore & Sons is not liable to collect tax at source
3. Is Kishore & Sons required to collect tax at source in respect of the sale transaction with M/s XYZ Ltd. If yes, what is the amount of tax to be collected?
- (a) Yes; ₹ 55,000
 - (b) Yes; ₹ 5,500
 - (c) Yes; ₹ 500
 - (d) No, Kishore & Sons is not liable to collect tax at source
4. Is M/s BAC Co. required to deduct tax at source in respect of the purchase transactions with Kishore & Sons. If yes, when and what is the amount of tax to be deducted?
- (a) Yes; ₹ 1,000 on 30.6.2022, ₹ 800 on 25.10.2022, ₹ 1,500 on 20.1.2023 and ₹ 1,200 on 15.2.2023
 - (b) Yes; ₹ 3,500 on 10.5.2022, ₹ 2,500 on 30.6.2022, ₹ 800 on 25.10.2022, ₹ 1,500 on 20.1.2023 and ₹ 1,200 on 15.2.2023
 - (c) Yes; ₹ 1,000 on 10.7.2022, ₹ 800 on 25.10.2022, ₹ 1,500 on 22.1.2023 and ₹ 1,200 on 15.2.2023
 - (d) No, M/s BAC Co. is not liable to deduct tax at source
5. Assume for the purpose of this MCQ, M/s BAC Co.'s turnover for the F.Y. 2021-22 was ₹ 9 crore, who will be required to deduct/ collect tax at source in respect of transactions between Kishore & Sons and M/s BAC Co. and at what rate?

- (a) Kishore & Sons is liable to collect tax at source @1% of ₹ 95 lakhs
- (b) Kishore & Sons is liable to collect tax at source @0.1% of ₹ 45 lakhs, being the sum exceeding ₹ 50 lakhs
- (c) M/s BAC Co. is liable to deduct tax at source @0.1% of ₹ 45 lakhs, being the sum exceeding ₹ 50 lakhs
- (d) Neither Kishore & Sons is liable to collect tax at source nor M/s BAC Co. is liable to deduct tax at source
6. 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 -
- (a) ₹ 2,00,000
- (b) ₹ 2,30,000
- (c) ₹ 3,45,000
- (d) ₹ 3,60,000
7. 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. 2023-24. Assume that Mr. Rishabh has opted for the provisions of section 115BAC.
- (a) ₹ 1,41,40,750
- (b) ₹ 1,38,86,990
- (c) ₹ 1,38,84,390
- (d) ₹ 1,39,81,240
8. 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?
- (a) ₹ 1,66,594

4

INTERMEDIATE EXAMINATION: MAY, 2023

- (b) ₹ 1,62,094
- (c) ₹ 1,37,438
- (d) ₹ 1,60,500

9. 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 from Delhi) and 60% of profit deposited in a bank in Indonesia and 40% received in India	70,000
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.
10. 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.

11. 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) NHA 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

12. Mr. Ram, a resident Individual aged 65 years, submits the following details of his income for the assessment year 2023-24:

Particulars	₹
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	1,50,000

exchange (STT paid at the time of acquisition and sale of shares)	
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.

13. Examine the tax implication of each transaction and compute the total income of Mr. Tushar and Mrs. Tushar and their minor son for the assessment year 2023-24, assuming they do not wish to opt for section 115BAC.
- (1) Mr. Tushar has a fixed deposit of ₹ 6,00,000 in State bank of India. He instructed the bank to credit the interest on the deposit @9% from 1st April, 2022 to 31st March, 2023 to the savings bank account of Mr. Raj, son of his brother, to help him in his education.
 - (2) Mr. Tushar started a proprietary business on 1st May, 2022 with capital of ₹ 6,00,000. His wife, Mrs. Tushar, a software Engineer, gave cash of ₹ 5,00,000 on 1st May, 2022, which was immediately invested in the business by Mr. Tushar. He earned a profit of ₹ 4,00,000 during the previous year 2022-23.
 - (3) Mr. Tushar's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.
14. 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:
- (a) Basic Salary ₹ 3,50,000 per month.
 - (b) Client entertainment reimbursement of ₹ 20,000 per month out of which he submitted bills for ₹ 2,00,000 for the relevant year.
 - (c) 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.
 - (d) Performance bonus amounting to 20% of annual basic salary.
 - (e) 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.

PAPER – 4: TAXATION

7

- (f) 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:

- (a) 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, 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)

15. 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 –

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

SUGGESTED ANSWERS

MCQ No.	Most Appropriate Answer
1.	(a)
2.	(d)
3.	(a)
4.	(a)

MCQ No.	Most Appropriate Answer
5.	(d)
6.	(c)
7.	(b)
8.	(c)

9. 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.

10. **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)		
<u>Gross Annual Value</u>		
(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	(14,220)
II Profits & Gains of business & profession		
Income from Profession	8,00,000	
Less: Light & Water Charges (25% of ₹ 2,000)	₹ 500	

10

INTERMEDIATE EXAMINATION: MAY, 2023

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

11. Computation of gross total income of Mr. Suresh for the A.Y. 2023-24

Particulars	Amount (₹)	Amount (₹)
<u>Profits and gains of business or profession</u>		
Business income before depreciation		11,00,000
Depreciated value of the block on April 1, 2022	10,00,000	
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	
		20,89,370
Less: Exemption under section 54EC	Nil	
[Deduction under section 54EC is allowable only in respect of long term capital gain on transfer of land and building]		
Exemption under section 54F	16,89,278	16,89,278
[20,89,370 x 19,00,000/23,50,000]		
		4,00,092
Gross Total Income		15,00,092

12. 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 shares)	1,50,000	
		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
<i>Less: Deduction under section 80TTB (Maximum being ₹ 50,000, since Mr. Ram is a senior citizen)</i>		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.

13. Computation of total income of Mr. Tushar and Mrs. Tushar and minor son for the A.Y. 2023-24

Particulars	Amount (₹) Mr. Tushar	Amount (₹) Mrs. Tushar	Amount (₹) Minor Son
Interest on Mr. Tushar fixed Deposit with State bank of India (₹ 6,00,000 x 9%) As per section 60, in case there is a transfer of income without transfer of assets from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 54,000 transferred by Mr. Tushar to Mr. Raj shall be included in the total income of Mr. Tushar	54,000		
Profit for P.Y. 2022-23 to be apportioned on the basis of capital employed on the first day of previous year i.e. as on 1 st May, 2022, since business started on 1.5.2022 (6:5)	2,18,182	1,81,818	

Share of income of Mr. Tushar [₹ 4,00,000 x 6/11]			
Share of Income of Mrs. Tushar [₹ 4,00,000 x 5/11]			
Section 64(1)(iv) of the Income-tax Act, 1961 provided 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.			
Income of minor son through a business activity involving application his skill and talent.			20,000
In case the income earned by minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.			
Therefore, the income of ₹ 20,000 derived by minor son through a business activity involving the application of his skill and talent shall not be clubbed in the hands of the parent. Such income will be taxable in the hands of the minor son.			
Total Income	2,72,182	1,81,818	20,000

14. 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] [Note 1]	3,00,000	

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		
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]	3,15,000	
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
III Capital gains		
STCG on sale of sweat equity shares [1,500 X (₹ 2,100 - ₹ 1,500)]		9,00,000
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
<i>Add: Surcharge@10% since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore</i>		1,87,188
		20,59,068
<i>Add: Health and Education cess @ 4%</i>		82,363
Tax Liability		21,41,431
Tax Liability (Rounded off)		21,41,430

Notes:

- (1) 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).
- (2) Premium for life insurance policy of father is not allowed as deduction under section 80C.
- (3) 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.

15.

	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
4.	Purchase of a professional laptop of ₹ 3 lakhs	Yes, since the amount paid exceeds ₹ 2,00,000

PAPER 4B - INDIRECT TAXES

QUESTIONS

- (1) All questions should be answered on the basis of the position of GST law as amended up to 31.10.2022.
- (2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

Manavtaa Trust is a charitable trust registered under section 12AB of the Income-tax Act, 1961. The trust is well known for its educational, charitable and religious activities. The trust became liable to registration under GST in the current financial year since it exceeded the threshold limit for registration and thus, got itself registered in the State of Gujarat in the month of May.

In the month of June, a multinational company, Dhruvtara Ltd., gifted 500 laptops worth ₹ 50 lakh to the trust free of cost for the charitable purposes, without any intention of seeking any business promotion from the same. Manavtaa Trust distributed these laptops for free in the same month to the needy students for facilitating them in their higher studies.

Manavtaa Trust owns a higher secondary school – Manavtaa Higher Secondary School - in Gujarat. In the month of July, the trust availed security personnel services from 'Perfect Security Solutions', Gujarat, a proprietorship concern, for security of the school premises for a consideration of ₹ 2,00,000. It also received legal consultancy services from 'Maya & Co.' a firm of advocates for the issues relating to the said school for ₹ 1,20,000, in the same month.

Manavtaa Trust furnished the following information regarding the expenses incurred by it in the month of August; all transactions being inter-State:

- (i) Services received and used for supplying taxable outward supplies – ₹ 3,50,000.
- (ii) Catering services received for students of Manavtaa Higher Secondary School – ₹ 2,00,000.
- (iii) Buses purchased with seating capacity of 25 persons including driver – ₹ 10,50,000 (Buses were delivered in the first week of September).

Manavtaa Trust provided the following information in respect of the services provided by it during the month of August:

- (i) It runs an old age home for senior citizens. Nominal monthly charges of ₹ 15,000 for boarding, lodging and maintenance are charged from each member. Total number of members is 20.

- (ii) It rents out a community hall situated within the precincts of a temple managed by it on 15th August for a religious function in first half for ₹5,000 and for an art exhibition in second half for ₹ 6,000.
- (iii) It rents out the rooms in the precincts of said temple to the devotees for a rent of ₹ 950 per room per day. Total rent collected in August amounts to ₹ 35,000.

All the figures given above are exclusive of taxes wherever applicable. Aggregate turnover of Manavtaa Trust for the preceding financial year was ₹ 15 lakh. All the conditions necessary for availment of ITC are fulfilled subject to the information given. Manavtaa Trust intends to avail exemption from GST wherever applicable.

Based on the information given above, choose the most appropriate answer to the following questions-

1. Which of the following activities of Manavtaa Trust does not amount to supply under the GST law?
 - (a) Free laptops distributed to the needy students
 - (b) Boarding, lodging and maintenance of the senior citizens by the old age home run by the trust
 - (c) Renting of community hall situated within the precincts of the temple managed by the trust
 - (d) Renting of rooms in the precincts of the temple managed by the trust
2. Compute the value of inward supplies on which tax is payable by Manavtaa Trust under reverse charge, for the month of July.
 - (a) ₹ 2,00,000
 - (b) ₹ 3,20,000
 - (c) ₹ 1,20,000
 - (d) Nil
3. Compute the value of exempt supply made by Manavtaa Trust for the month of August.
 - (a) ₹ 3,00,000
 - (b) Nil
 - (c) ₹ 3,35,000
 - (d) ₹ 35,000
4. Compute the value of taxable supply made by Manavtaa Trust for the month of August.
 - (a) ₹ 3,00,000
 - (b) ₹ 11,000

- (c) Nil
(d) ₹ 35,000
5. Determine the amount of ITC that can be credited to the Electronic Credit Ledger of Manavtaa Trust, in the month of August.
- (a) ₹ 36,000
(b) ₹ 63,000
(c) ₹ 1,89,000
(d) ₹ 2,88,000
6. 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.
7. 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.
8. 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.
9. Briefly enumerate the contraventions which make a registered person liable to cancellation of registration, as prescribed under rule 21 of the CGST Rules, 2017.
10. 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.

SUGGESTED ANSWERS

Question No.	Answer	
1	(a)	Free laptops distributed to the needy students
2	(d)	Nil
3	(c)	₹ 3,35,000
4	(b)	₹ 11,000
5	(b)	₹ 63,000

20

INTERMEDIATE EXAMINATION: MAY, 2023

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 than an institution providing pre-school education or education up to higher secondary school, are not exempt.]	1,00,000	9,000	9,000	Nil
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 imparting training on driving such motor vehicles. Further, ITC is not allowed on services of general insurance relating to such ineligible motor vehicles.]	40,000	Nil	Nil	Nil
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.]	<u>Nil</u>	<u>Nil</u>	<u>31,500</u>
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.

7. (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 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.

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.

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.

8. (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.

9. 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 -
- (a) does not conduct any business from the declared place of business.
 - (b) issues invoice/bill without supply of goods/services in violation of the provisions of this Act, or the rules made thereunder.
 - (c) violates the provisions of section 171 of the CGST Act. Section 171 contains provisions relating to anti-profiteering measure.
 - (d) violates the provision of rule 10A of the CGST Rules relating to furnishing of bank account details.
 - (e) avails input tax credit in violation of the provisions of section 16 of the CGST Act or the rules made thereunder.
 - (f) 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.

- (h) 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.
 - (i) 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.
10. 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.