

INTERMEDIATE (IPC)
GROUP I - PAPER 4
TAXATION

MAY 2013

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 11

Time Allowed – 3 Hours

Maximum Marks – 100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his answers in Hindi will not be valued.

Question No. 1 is compulsory.

Attempt any **five** questions from the remaining **six** questions.

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answer.

All questions pertaining to the Income tax relate to assessment year 2013-14, unless stated otherwise in the question.

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1. (a) Mrs. Rani a resident aged 50 years is running an acupuncture clinic. Her **10**
Income and Expenditure Account and other relevant information for the year
ending 31st March, 2013 are given below :

Expenditure	Amount ₹	Income	Amount ₹
To Staff Salary	2,40,000	By Fees receipts	10,00,000
To Clinic rent	1,20,000	By Dividend from Indian Companies	10,500
To Medicines and needles	1,05,000	By Winning from Lotteries net of TDS (TDS ₹ 3,000)	7,000
To Depreciation	81,000	By Income-tax Refund	1,750
To Administrative expenses	1,52,000		
To Donation to Prime Minister's National Relief Fund	20,000		
To Excess of Income over Expenditure	3,01,250		
	10,19,250		10,19,250

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- (i) Depreciation in respect of all assets has been ascertained at ₹ 60,000 as per Income-tax rules.
- (ii) Medicines & needles of ₹ 22,000 have been used for her family.
- (iii) Fees Receipts include ₹ 24,000 being honorarium for valuing acupuncture examination answer books.
- (iv) She has also received ₹ 57,860 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.
- (v) She has paid an LIC premium of ₹ 12,000 for self (Sum Assured ₹ 50,000).
- (vi) She has paid ₹ 2,500 for purchase of lottery tickets.

From the above compute the total Income and tax payable thereon of Mrs. Rani for the Assessment year 2013-14.

- (b) Q Ltd. is engaged in providing the taxable services. Ascertain the amount of service tax payable by it in the month of September, 2012 from the information given below : 5

Particulars	Amount (₹)
Supply of farm labour for agriculture purpose.	1,00,000
Service to people free of cost.	60,000
Advance received in September, 2012 from clients for which no service has been rendered till date.	85,000
Amount received for the services rendered in June, 2012 (bills for the same were issued on 25 th June, 2012)	90,000
Bill raised for the services rendered in the month of September, 2012 against which no amount is received so far.	75,000

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The above amounts are exclusive of service tax. Q. Ltd is not eligible for small service provider's exemption in the financial year 2012-13.

The rate of Service Tax is 12%, Education Cess is 2% and Higher Education cess is 1%.

- (c) Mr. Bansilal of Punjab is a manufacturer, registered under VAT. He provides the following particulars for the financial year 2012-13. 5

	₹
1. Purchases from local registered dealer (excluding VAT 4%)	1,15,000
2. Purchases from a dealer having opted composition scheme (includes VAT 4%)	2,20,000
3. Purchases of machinery eligible for input credit on 1-10-2012 (excluding VAT 4%) Depreciation rate 15% p.a.	5,00,000
4. Other direct & indirect expenses – 30% of total purchases (excluding depreciation)	
5. Profit margin – 20% of the total cost.	
6. Unutilized balance of VAT input credit as on 1-4-2012.	7,500
7. 90% of the production is sold during the year.	
8. VAT rate for sales is 12.5%	

Find the taxable turnover, net VAT payable and input credit for the year 2012-13.

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2. (a) Devesh and Siddhant are brothers and they earned the following incomes during the financial year 2012-13. Devesh settled in America in the year 1985 and Siddhant settled in Mumbai. Devesh visits India for 20 days every year. Siddhant also visits America every year for a month. Compute their total income for the Assessment year 2013-14 from the following information. 8

Sl. No.	Particulars	Devesh ₹	Siddhant ₹
1.	Interest on American Development bonds, 50% of interest received in India.	46,000	18,000
2.	Dividend from a Japanese Company received in America.	10,000	15,000
3.	Profit on sale of shares of an Indian company received in India.	45,000	75,000
4.	Profit from a business in Mumbai, but managed directly from America.	10,000	—
5.	Income from a business in Mumbai.	32,000	28,000
6.	Fees for technical services rendered in America and received in America. The services were, however, utilized in India.	1,50,000	—
7.	Interest on savings bank deposit in State Bank of India, Mumbai.	4,500	12,000
8.	Rent received in respect of house property at Mumbai.	96,000	55,000
9.	Life Insurance Premium paid.	—	25,000

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(b) What is "Negative list of services" ? Which services by Government or a local authority are not included in the negative list of services ? 4

(c) One of the merits of VAT is 'Neutrality'. Explain. 4

3. (a) (i) Rajesh went to Shrinagar on a holiday on 15-11-2012 with his wife and two children (one Son – age 6 years; twin daughters – age 3 years). They went by aeroplane (economy class) and the total cost of tickets by his employer was ₹ 58,000 (₹ 43,000 for adults and ₹ 15,000 for the three minor children. Compute the amount of Leave Travel Concession exempt. 4

Will the answer be any different if among his three children the twins are 6 years old and son 3 years old ? Discuss.

(ii) Mr. Gobind received retrenchment compensation of ₹ 10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of ₹ 20,000 p.m; dearness allowance of ₹ 5,000 p.m. Compute his taxable retrenchment compensation. 4

(b) What is meant by EASIEST scheme ? Enlist the benefits of EASIEST scheme to an assessee under the Service Tax Provisions. 4

(c) Seth Traders, a registered dealer of Bihar having stock of goods worth ₹ 60,000 purchased from West Bengal wishes to opt for composite scheme. Advise the dealer whether it is possible ? 4

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4. (a) From the following information of Mr. Mohit for the financial year 2012-13 you are required to compute his total income for the financial year 2012-13 and ascertain the amount of losses which will be carried forward to next year. **8**

(i)	He owns two houses :	₹
	House No. 1 – Income after all statutory deductions	80,000
	House No. 2 – Current year loss	(38,000)
(ii)	He has three proprietary business concerns :	
(a)	Textile Business :	
(i)	Discontinued from 30 th September 2012 – Current year's loss	40,000
(ii)	Brought forward loss of Asst. year 2009-10	95,000
(b) (i)	Chemical Business – since discontinued :	Nil
(ii)	Bad debts allowed in earlier years recovered during the year.	35,000
(iii)	Brought forwarded business loss of Asst. year 2011-12	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 2001.	16,550
(iii) (a)	Short Term Capital Gain	60,000
(b)	Long Term Capital Loss	35,000
(iv)	Contribution to L.I.C. towards premium	10,000

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- (b) State with reasons whether the following statements are correct or incorrect under the Service Tax provisions : 4

- (1) Mr. P provides the service in March, 2012. He receives the payment by cheque on 30-3-2012 and the cheque is cleared on 15-4-2012. The point of taxation of this service will be 30-3-2012 and the rate of service tax will be 10%.
- (2) Postal services for registered post are liable to service tax.
- (3) M/s SR Brothers having office in Jammu, provide the services to M/s QR Ltd. in Patna. These services are not liable to service tax.
- (4) Jaipur Branch of ABC Ltd. provides services to Baroda Branch of ABC Ltd. These services are not liable to service tax.

- (c) Discuss the provisions of VAT for 'stock transfer'. 4

5. (a) Mr. A is an employee of Larsen Limited and has substantial interest in the company. His salary is ₹ 25,000 p.m. Mrs. A also is working in that company at a salary of ₹ 10,000 p.m. without any professional qualification. 8

Mr. A also receives ₹ 30,000 as income from securities, Mrs. A owns a house property which she has let out. Rent received from such house property is ₹ 12,000 p.m.

Mr. & Mrs. A have three minor children-two twin daughters and one son. Income of the twin daughters is ₹ 2,000 p.a. and that of his son is ₹ 1,200 p.a. Compute the income of Mr and Mrs. A.

- (b) ABC & Co. is a partnership firm engaged in the business of recruitment and supply of labourers. The firm, which had rendered taxable services to the tune of ₹ 30 lacs in the financial year 2011-12, furnishes the following details pertaining to the half year ended on 30-9-2012 : 4

Sl. No.	Particulars	₹
1.	Amounts collected from companies for pre-recruitment screening.	3,00,000
2.	Amounts collected from companies for recruitment of	
	– Permanent staff	1,80,000
	– Temporary staff	4,50,000
3.	Advances received from prospective employers for conducting campus interviews in colleges.	80,000

Wherever applicable, service tax has been charged separately and received from clients.

Compute the value of taxable services rendered and the service tax payable by the assessee for the relevant half year. The rate of service tax is 12%, education cess is 2% and higher education cess is 1%.

- (c) Manufacturer A sold product X to B of Delhi @ ₹ 1,000 per unit. He has charged CST @ 4% on the said product and paid ₹ 60 as freight. B of Delhi sold goods to C of Delhi @ ₹ 1,250 per unit and charged VAT @ 12.5%. C of Delhi sold goods to D, a consumer @ ₹ 1,500 per unit and charged VAT @ 12.5%. 4

Compute VAT Liability of B & C.

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6. (a) Ms. Neelima had purchased 500 equity shares in A Ltd at a cost of ₹ 30 per share (brokerage 1%) in February 1979. 8

She got 50 bonus shares in September 1980.

She again got 550 bonus shares by virtue of her holding on March, 1985. Fair market value of the shares of A Ltd. on April, 1981 is ₹ 50.

In January 2013, she transferred all her shares @ ₹ 240 per share (brokerage 2%).

Compute the capital gains taxable in the hands of Ms. Neelima for the Assessment Year 2013-14 assuming

- (a) A Ltd. is an unlisted company and securities transaction tax was not applicable at the time of sale.
- (b) A Ltd. is a listed company and the shares are sold in a recognised stock exchange and securities transaction tax was paid at the time of sale.

Cost of inflation index.

F.Y. 1981-82	100
F.Y. 1984-85	125
F.Y. 2012-13	852

- (b) Mr. Rajesh, a proprietor of Z enterprise provides taxable services. He 4
received the following amount during the financial year 2012-13 :
- (i) ₹ 1,25,000 as advance while signing a contract.
- (ii) ₹ 6,00,000 by pay order during process of providing service.
- (iii) ₹ 5,25,000 by credit card after completion of service as on 31st Dec., 12.

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Compute the value of taxable service and amount of service tax payable by him. Assume service tax has been charged separately. Z enterprise is not eligible for small service provider's exemption in the financial year 2012-13.

The rate of service tax is 12%, education cess is 2% and higher education cess is 1%.

(c) Distinguish between Gross Variant and Consumption Variant of VAT.

4

7. (a) Answer any two of the following three sub-divisions :

2 × 4 = 8

- (i) Briefly discuss the provisions relating to payment of advance tax in case of capital gains and casual income.
- (ii) Explain the provision regarding the taxability of limited liability partnership under the Income-Tax Act, 1961.
- (iii) State the head of income in the following cases under which the receipt is to be assessed and comment.
 - (A) A uses his property for his own business. Can he claim depreciation ?
 - (B) B lets out his property to X. X sublets it. How is sub-letting to be assessed in the hands of X ?
 - (C) C has built a house on a leasehold land. He has let out the property and claims the rent as income from house property and deducted expenses on repairs, security charges, insurance and collection charges totalling to 40% of receipts.

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|------|---|---|
| (b) | How is the value of the service under service tax provisions determined where such value is not ascertainable ? | 4 |
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| (c) | What are the procedural requirements under VAT Act for claiming set off of input tax on capital goods ? | 4 |
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