

**Total No. of Questions: 7**  
**Time Allowed: - 3 Hours**

**IPCC (INCOME TAX)**  
**Questions no. 1 is Compulsory.**

**Attempt any Five Questions from the remaining six questions.**

Wherever required, suitable assumptions may be made by the candidate and stated clearly in the answer

**Working notes should form part of answer.**

All questions relate to the assessment year 2016-17, unless stated otherwise in the questions.

**Question 1**

(A) Dr. Sonia, a resident individual, aged 60 years is running a clinic. Her Income and Expenditure Account for the year ending March 31st, 2016 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	6,72,340	By Consultation and Medical charges	19,96,750
To Staff salary	4,20,000	By Income-tax refund (Principal ₹ 4,800, interest ₹ 650)	5,450
To Clinic consumables	1,42,000	By Dividend from units of UTI	9,400
To Rent paid	75,000	By winning from game show on T.V. (net of TDS of ₹ 15,600)	36,400
To Administrative expenses	2,81,000	By Rent	36,000
To Amount paid to Scientific research Association approved under section 35	1,80,000		
To Net profit	<u>3,13,660</u>		
	<b><u>20,84,000</u></b>		<b><u>20,84,000</u></b>

- (i) Rent paid includes ₹ 37,000 paid by cheque towards rent for her residential house in Gwalior.
- (ii) Clinic equipments are:
 

01.04.2015	Opening W.D.V.	- ₹ 4,50,000
15.01.2016	Acquired (cost)	- ₹ 2,25,000
- (iii) Rent received relates to property situated at Gwalior. Gross Annual Value ₹ 36,000. The municipal tax of ₹ 2,800, paid in January, 2016, has been included in "administrative expenses".
- (iv) She received salary of ₹ 15,000 p.m. from "Radha Krishnan Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Sonia availed a loan of ₹ 7,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 80,000, and interest thereon ₹ 75,000 during the year 2015-16.
- (vi) She paid ₹ 80,000 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 ₹ 23,000 has also been paid by cheque on 15<sup>th</sup> February, 2016 for her medical insurance premium.

From the above, compute the total income of Dr. Sonia for the A.Y. 2016-17.

**(Marks 10)**

(B) Euro Bank Ltd. furnishes the following information relating to services provided by it:

Particulars	₹
Interest on overdraft	5,00,000
Interest on loans with a collateral security	6,00,000
Interest on corporate deposits	10,00,000
Administrative charges (over and above interest) on loans, advances and deposits	6,00,000
Service charges relating to sale of foreign exchange to general public	15,00,000
[Computed in terms of rule 2B of Service Tax (Determination of Value) Rules, 2006]	
Service charges relating to issuance of Certificates of Deposit (CDs)	20,00,000

Compute the value of taxable service and the service tax liability of Euro Bank Ltd. assuming that it is not eligible for small service providers' exemption under Notification No. 33/2012 ST dated 20.06.2012. Service tax has been charged separately, wherever applicable. **(Marks 6)**

(C) Mr. P of Mumbai purchased declared goods (goods of special importance) from Nagpur by paying sales tax at @ 5%. Subsequently, the commodity is sold to a dealer at Chennai. The dealer P while collecting and remitting tax on the inter-State sale, wants refund of tax paid on sale within State (i.e. purchase from Nagpur). Is he correct? **(Marks 4)**

## Question 2

(A) Mr. Rupesh is the Finance Manager of Vaibhav Construction Pvt. Ltd. and he is in receipt of the following emoluments from his employer. Compute his taxable salary for the Assessment year 2016-17.

Particulars	₹
Basic Salary	
Up to 30.9.2015	28,000 p.m.
From 1.10.2015	35,000 p.m.
D.A. (forming part of retirement benefits)	16,000 p.m.
Transport allowance	3,600 p.m.
Employer's contribution to recognised provident (R.P.F.)	18% of basic salary and dearness allowance
Interest credited to recognized provident fund @10%	40,000
Children education allowance (total p.m.)	240 p.m. (See Note)
Entertainment allowance	450 p.m.
Hostel expenses allowance (total p.m.)	600 p.m. (See Note)
Tiffin allowance	7,500 p.a.
Professional tax paid (₹ 2,500 was paid by his employer)	3,200

**Note:** Children education allowance and hostel expenditure allowance have been given for two children of Mr. Rupesh, aged 16 years and 14 years, in accordance with the policy of the employer. As per the said policy, the eligible children education allowance and hostel expenditure allowance in respect of an employee's child above 15 years of age would be double the eligible children education allowance/hostel expenditure allowance, as the case may be, in respect of an employee's child up to 15 years of age.

**(Marks 8)**

(B) A service provider has not been able to file the half yearly service tax return by the prescribed due date. He is worried and does not know what recourse is available to him in this situation. He seeks your help on the issue. What advice will you offer him? **(Marks 5)**

(C) Discuss the tax consequences of inter-state stock transfer under the VAT scheme. **(Marks 3)**

**Question 3**

(A) Mr. Shyam and Mr. Mohan are brothers and they earned the following incomes during the financial year 2015-16. Mr. Shyam settled in Australia in the year 1980 and Mr. Mohan settled in Hyderabad. Mr. Shyam visits India for 20 days every year. Mr. Mohan also visits Sydney every year for a month. Compute their total income for the Assessment Year 2016-17 from the following information:

Sl. No.	Particulars	Mr. Shyam	Mr. Mohan
1.	Interest on Australian Development Bonds, 50% of interest received in India	36,000	28,000
2.	Dividend from a Japanese Company received in Sydney	10,000	12,000
3.	Profit from a business in Mumbai, but managed directly from Sydney	13,000	-
4.	Profit on sale of shares of an Indian company received in India	65,000	96,000
5.	Income from a business in Chennai	28,000	32,000
6.	Fees for technical services rendered in Sydney and received in Sydney. The services were, however, utilized in India.	1,25,000	-
7.	Interest on savings bank deposit in Central Bank, Hyderabad	8,000	18,000
8.	Agricultural income from a land situated in Gujarat	40,000	40,000
9.	Rent received in respect of house property at Hyderabad	86,000	60,000
10.	Life insurance premium paid	-	35,000

**(Marks 8)**

(B) BC Pvt. Ltd., a manufacturer, has furnished the following information:

Sr. No.	Particulars	Excise duty/service tax paid (₹)
(i)	Input A" Invoice dated 23.03.20XX	1,56,000
(ii)	Input B" Invoice dated 10.04.20XX	1,35,000
(iii)	Input C" Invoice missing	89,460
(iv)	Input service „X" Invoice dated 12.06.20XX	45,340
(v)	Input service „Y" Invoice dated 20.03.20XX	68,240
(vi)	Machinery (being eligible capital goods under Chapter 82) Invoice dated 12.03.20XX	3,54,670
(vii)	GTA service for bringing raw material to the Invoice dated 14.04.20XX Value of services ` 3,00,000	9,270

factory (payment has not been made to GTA but service tax has been paid under reverse charge)		
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BC Pvt. Ltd. is not entitled to SSI exemption under Notification No. 8/2003 CE dated 01.03.2003. All the above-mentioned invoices [except at point (iii)] are received by BC Pvt. Ltd. in the month of April of next year.

You are required to determine the total CENVAT credit that can be availed by BC Pvt. Ltd. during the month of April of next year. **(Marks 4)**

- (C) Spring Fresh is a leading manufacturer of bottled aerated water. Legal Metrology Act, 2009 requires declaration of retail sale price on the bottles of aerated water.

Following information has been furnished by Spring Fresh:

Particulars	Amount (₹)
Abatement available on aerated water - 40% of retail sale price	
MRP marked on the bottles of aerated water	₹ 30 per bottle
Price at which Spring Fresh sells the bottles of aerated water to their wholesalers	₹ 19 per bottle
Price at which wholesalers sell the bottles of aerated water to retail shop owners	₹ 24 per bottle
Price at which bottles of aerated water are sold by retailers to final consumers	₹ 28 per bottle (₹ 2 offered as discount on printed MRP)

Calculate the assessable value for the purpose of excise duty on the bottles of aerated water. Will your answer change, if Spring Fresh declares two MRPs namely, ₹ 30 and ₹ 40 on each bottle of aerated water?

Note: Aerated waters are notified under section 4A of Central Excise Act, 1944 (RSP based valuation provisions). **(Marks 4)**

#### Question 4

- (A)(i) 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 2015-16: **(Marks 4)**

- (i) Mr. Jagdish sold his house property in Delhi as well as rural agricultural land for a consideration of ₹ 80 lakh and ₹ 25 lakh, respectively, to Mr. Siddharth on 31<sup>st</sup> August 2015.
- (ii) Payment of royalty of ₹ 25,000 and fee for professional services of ₹ 28,000 to Mr. Varun.
- (iii) Punjab National Bank pays ₹ 1,00,000 per month as rent to the Central Government for a building in which one of its branches is situated.
- (iv) Payment of ₹ 1,98,000 on 01.05.2015 to Mr. Karan for compulsory acquisition of his urban land by the State Government.

- (ii) Mr. Rajveer is a resident Indian. During the F.Y. 2015-16, interest of ₹ 3,06,000 was credited to his Non-resident (External) Account with the SBI. ₹ 25,000 being interest on fixed deposit with SBI was credited to his savings bank account during this period. He also earned ₹ 9,600 as interest on this savings account. Is Mr. Rajveer required to file return of income?

What will be your answer, if he owns a house in London?

**(Marks 4)**



Particulars (raw material purchased from within the State)	Amount (₹)	Rate of VAT
Goods 'A'	10,00,000	Exempt
Goods 'B'	20,00,000	1%
Goods 'C'	30,00,000	12.5%

Details of sales of goods:-

Particulars (Sale of finished goods)	State in which goods are sold	Amount (₹)	Rate of VAT
Produced from Goods 'A'	Tamil Nadu	5,00,000	12.5%
	Gujarat	7,00,000	1%
Produced from Goods 'B'	Tamil Nadu	24,00,000	Exempt
Produced from Goods 'C'	Tamil Nadu	35,00,000	4%

Compute the amount of Value Added Tax (VAT) payable by Mr. Ram for the relevant month. There was no opening or closing inventory. **(Marks 4)**

**Question 6**

**(A)** Compute the income chargeable under the head "Income from other sources" from the following details furnished by Mrs. Tripti pertaining to the year ended 31.3.2016 :

- Cash gift of ₹ 1,01,000 received from her friend on the occasion of her 25<sup>th</sup> wedding anniversary.
- On the above occasion, a diamond necklace worth ₹ 10 lacs was presented by her brother living in Canada.
- On the occasion of her birthday, she gets a gift of a car worth ₹ 2,40,000 from her friend.
- Interest on enhanced compensation received amounting to ₹ 3,50,000. Out of this interest, 75,000 relates to the previous year 2008-09, ₹ 1,10,000 relates to the previous year 2009-10 and ₹ 1,65,000 relates to the previous year 2010-11.
- She has received interest of ₹ 7,000 on post office savings bank account during the year.

**(Marks 8)**

**(B)** Nanak Enterprises imported machinery from USA in an aircraft. The bill of entry was presented on 05.06.20XX and the aircraft arrived in India on 15.06.20XX. The rate of import duty on the respective dates was as follows:-

Particulars	Date	Rate of customs duty
Date of bill of entry	05.06.20XX	10%
Date of arrival of aircraft	15.06.20XX	11%

Determine the rate of import duty applicable in the given case.

**(Marks 4)**

**(C)** Hans India Pvt. Ltd.'s total inter-State sales @ 4 % CST for the Financial Year 2015-16 is Rs. 1,50,00,000 (CST not shown separately). In this regard, following additional information is available:

- Goods sold to Mr. A for Rs. 1,50,000, on 16.07.2015 were returned by him on 12.12.2015.
- A buyer, Mr. B, to whom goods worth Rs. 55,000 were dispatched on 16.04.2015, rejected such goods. The said goods were received back on 15.11.2015.
- Goods sold to Mr. C for Rs. 5,00,000, on 16.04.2015 were returned by him on 12.12.2015.

Determine the amount of taxable turnover and tax liability of Hans India Pvt. Ltd.

**(Marks 4)**

**Question 7 (Attempt Any two in (A) out of three).**

**(A)(i)** 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 01.01.2016, when the stamp duty value was Rs. 150 lakh. The agreement was, however, entered into on 01.07.2015 when the stamp duty value was Rs. 140 lakh. Mr. Hari had received a down payment of Rs. 15 lakh by 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, 2015.

Would your answer be different if Hari was a share broker instead of a property dealer? **(Marks 4)**

**(A)(ii)** Mr. Sanjay is engaged in wholesale trade, having turnover of ₹ 40,00,000 for the financial year 2015-16. His income from the said business as per books of account is computed at ₹ 2,55,000. Wholesale trade is the only source of income of Mr. Sanjay.

(i) Is Mr. Sanjay eligible to opt for presumptive determination of his income chargeable to tax for the assessment year 2016-17?

(ii) If so, determine his income from wholesale trade as per the applicable presumptive tax provisions.

(iii) In case Mr. Sanjay does not opt for presumptive taxation of income from wholesale 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?

**(Marks 4)**

**(A)(iii)** Mr. Sanjay furnishes the following particulars of his income relating to the assessment year 2016-17:

Particulars	₹
Income from Salaries	2,40,000
Business loss (non-speculation)	1,00,000
Brought forward business loss relating to A.Y. 2013-14	40,000
Loss from specified business (covered by section 35AD)	60,000
Long-term capital gain on sale of land	2,00,000
Short-term capital loss on sale of shares	40,000
Loss from betting	40,000
Winnings from	60,000

Compute the gross total income of Mr. Sanjay for the Assessment Year 2016-17 and the loss to be carried forward.

**(Marks 4)**

**(B)** Mr. Sai is a money changer. He is finding it difficult to charge service tax @ 14% on the value of services provided by him. Can he pay service tax at a different rate? Explain.

**(Marks 4)**

**(C)** ABC India Ltd. is engaged in the manufacture of some dutiable goods. It purchased the following goods in the month of July, 20XX:-

S.No.	Item	Excise duty paid (₹)
(i)	Raw material used for the production of the final product	1,00,000
(ii)	Goods used for generation of electricity for captive consumption	20,000
(iii)	Goods used for providing free warranty – Value of such free warranty provided by ABC India Ltd. is included in the price of the final product and is not charged separately from the customers	10,000
(iv)	Light diesel oil	5,000

Compute the amount of CENVAT credit available with ABC India Ltd.

**(Marks 4)**