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FOR CA INTERMEDIATE EXAM PREPARATION

CA Intermediate 2023 Suggested Answers · Paper 4 Taxation (Old Scheme)

EXAM	YEAR	TYPE
CA Intermediate	2023	Suggested Answers

SUBJECT	DATE
Paper 4 Taxation (Old Scheme)	November 2023

PAPER – 4 : TAXATION

SECTION A : INCOME TAX LAW

Part - II

*Question No.**1** is compulsory.*

*Candidates are also required to answer any **two** questions from the remaining **three** questions.*

Working notes should form part of the respective answers.

All questions relate to assessment year 2023-24, unless otherwise stated.

Question 1

Mr. Pramod, a resident aged 55 years, is a retail trader; he furnished the following information for A.Y. 2023-24:

Trading and Profit and Loss Account for the year ended on 31.03.2023:

	₹		₹
To Opening Stock	1,15,000	By Sales	70,80,000
Purchases	55,40,000	Closing Stock	2,10,000
Transport charges	1,20,000		
Gross Profit c/f	15,15,000		
	72,90,000		**72,90,000**
To Salaries	3,40,000	By Gross Profit b/f	15,15,000
Rates and Taxes	24,000	Rent from H. Property	1,80,000
Administrative Expenses	3,25,000	Rent from furniture	1,20,000
Depreciation	80,000		
Net Profit	10,46,000		
	18,15,000		**18,15,000**

(1) All the sales are by account payee cheques or through bank transfers.

(2) The opening and closing stocks have been over valued by ₹ 15,000 and ₹ 20,000 respectively.

The Suggested Answers for Paper 4A: Income-tax Law are based on the provisions of the Income-tax Act, 1961 as amended by the Finance Act, 2022 which are relevant for November, 2023 Examination. The relevant assessment year is A.Y. 2023-24.

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(3) Rates and taxes include GST liability of ₹ 5,000 paid on 01.05.2023 and municipal taxes for let out property ₹ 7,000.

(4) Administrative expenses include ₹ 25,000 paid as donation to National Children's Fund, and a payment for laptop purchased on 15.05.2022 for ₹ 60,000 through bank transfer.

(5) Transport charges include ₹ 30,000 paid in cash on 01.09.2022.

(6) He incurred a loss of ₹ 8,000 on sale of equity shares on 10.02.2023, which were purchased on 10.06.2022.

(7) Depreciation includes ₹ 1,200 as depreciation on Trade Marks wrongly charged at 15%.

(8) He deposited ₹ 50,000 in PPF a/c and has paid life insurance premium ₹ 60,000.

(9) He paid interest of ₹ 70,000 on loan availed in F.Y. 2017-18 for higher education of his wife.

Compute the total income and the income tax payable by Mr. Pramod for A.Y. 2023-24, if,

(i) The business profit is computed as per normal provisions and he opts for section 115BAC.

(ii) He opts to compute business profit under presumptive taxation under section 44AD and does not opt for section 115BAC.

(iii) The business profit is computed as per normal provisions of Income-tax Act and he does not opt for section 115BAC.

Which option is advantageous to Mr. Pramod ? ***(14 Marks)***

Answer

(i) Computation of total income and tax payable by Mr. Pramod for A.Y. 2023-24 as per normal provisions of the Act (as per books of accounts) and opting for section 115BAC

	Particulars	₹	₹
I	**Income from house property**		
	Gross Annual Value[1]	1,80,000	
	Less: Municipal taxes paid	7,000	
	Net Annual Value (NAV)	1,73,000	
	Less: Deduction u/s 24(a) - 30% of NAV	51,900	1,21,100
II	**Profits and gains of business or profession**		
	Net Profit	10,46,000	

[1] 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)

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	Add: Over statement of opening stock	15,000	
		10,61,000	
	Less: Over statement of closing stock	20,000	
		10,41,000	
	*[**Note -** Alternatively, net of overstatement of opening stock and closing stock i.e., ₹ 5,000 can be reduced.]*		
	***Add:* Expenses debited to profit and loss account but not allowable as deduction**		
	GST liability paid on 1.5.2023 [Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible]	-	
	Municipal taxes for let out property	7,000	
	Donation to National Children's Fund	25,000	
	Payment for Laptop	60,000	
	Transport charges of ₹ 30,000 in cash [Not disallowed since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators.]	-	
		11,33,000	
	***Less:* Incomes credited to profit and loss account but not taxable as business income**		
	Rent from house property	1,80,000	
	Rent from furniture	1,20,000	
		8,33,000	
	Less: Depreciation		
	- On Trade Marks [Trade Marks are eligible for depreciation @25%] [₹ 1,200/15% x 25% - ₹ 1,200, being the wrong depreciation]	800	
	*[**Note -** Alternatively, deprecation of ₹ 1,200 wrongly claimed can be added and the amount of correct depreciation of ₹ 2,000 can be deducted.]*		
	- On laptop [₹ 60,000 x 40%]	24,000	8,08,200

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III	**Capital Gains**		
	Short term capital loss of ₹ 8,000 on sale of equity shares [Can be set off against capital gain only. Hence, carried forward to A.Y. 2024-25]		-
IV	**Income from Other Sources**		
	Rent from furniture		1,20,000
	Gross Total Income/Total income		**10,49,300**
	[Deduction under Chapter VI-A is not allowed under section 115BAC]		
	Computation of Tax payable		
	Tax on ₹ 10,49,300		
	Upto ₹ 2,50,000	Nil	
	₹ 2,50,000 @5% [₹ 5,00,000 - ₹ 2,50,000]	12,500	
	₹ 2,50,000 @10% [₹ 7,50,000 - ₹ 5,00,000]	25,000	
	₹ 2,50,000 @15% [₹ 10,00,000 - ₹ 7,50,000]	37,500	
	₹ 49,300 @20% [₹ 10,49,300 - ₹ 10,00,000]	9,860	
			84,860
	Add: Health and education cess @4%		3,394
	Tax payable		**88,254**
	Tax payable (Rounded off)		**88,250**

(ii) Computation of total income and tax payable by Mr. Pramod for A.Y. 2023-24 as per presumptive provisions under section 44AD and not opting for section 115BAC

	Particulars	₹	₹
I	**Income from house property [Computed in (i) above]**		1,21,100
II	**Profits and gains of business or profession**		4,24,800
	[6% of sales, as all sales are by account payee cheque or through bank transfers] [₹ 70,80,000 x 6%]		
III	**Income from Other Sources [Computed in (i) above]**		1,20,000
	Gross Total Income		**6,65,900**
	***Less:* Deduction under Chapter VI-A**		

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	Deduction under section 80C		
	- Deposit in PPF A/c	50,000	
	- Life insurance premium	60,000	1,10,000
	Deduction under section 80G		
	Donation to National Children's Fund [Allowed 100% without qualifying limit]		25,000
	Deduction under section 80E		
	Interest on loan for higher education of his wife		70,000
	Total Income		**4,60,900**
	Computation of Tax Payable		
	Tax on ₹ 4,60,900		
	₹ 2,10,900 @ 5% [₹ 4,60,900 - ₹ 2,50,000]		10,545
	Less: Rebate u/s 87A – lower of ₹ 10,545 or ₹ 12,500 allowable, since total income does not exceed ₹ 5,00,000		10,545
	Tax Payable		**Nil**

(iii) Computation of total income and tax payable by Mr. Pramod for A.Y. 2023-24 as per normal provisions of the Act (as per books of accounts) and not opting for section 115BAC

Particulars		₹
Gross Total Income [Computed in (i) above]		**10,49,300**
Less: Deduction under Chapter VI-A [Computed in (ii) above] [₹ 1,10,000 + ₹ 25,000 + ₹ 70,000]		2,05,000
Total Income		**8,44,300**
Computation of Tax Payable		
Tax on ₹ 8,44,300		
₹ 2,50,000 @5% [₹ 5,00,000 - ₹ 2,50,000]	12,500	
₹ 3,44,300 @20% [₹ 8,44,300 - ₹ 5,00,000]	68,860	
		81,360
Add: Health and education cess @4%		3,254
Tax payable		**84,614**
Tax payable (Rounded off)		**84,610**

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Option advantageous to Mr. Pramod

It is beneficial for Mr. Pramod to opt for presumptive provisions under section 44AD and not to opt for section 115BAC.

Question 2

(a) State (Yes/No) whether the following transactions can be treated as income deemed to accrue or arise in India:

(1) Hire charges paid outside India for the use of machinery situated in India.

(2) Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India.

(3) Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India.

(4) Allowances paid by the Government to a citizen of India for the services rendered outside India.

(5) Past period foreign untaxed income brought to India during the previous year.

(6) Gift received by a non-resident on the occasion of his wedding in India. ***(3 Marks)***

(b) Mr. Sanjay has following incomes during the previous year 2022-23:

(1) Interest on England Development Bonds (1/3 received in India) ₹ 60,000.

(2) Interest received from a non-resident ₹ 5,000 against a loan given to him to run a business in India.

(3) Royalty received from Akhil, a resident, for technical services given to run a business outside India ₹ 20,000.

(4) Income from business in Sri Lanka ₹ 25,000 out of which ₹ 15,000 were received in India. The business is controlled from India.

Compute taxable income of Mr. Sanjay for the assessment year 2023-24 if he is a

(I) Not ordinarily resident

(II) Non-resident ***(4 Marks)***

(c) 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. 2023- 24. (State applicable provision and give brief reasons for your answer, wherever applicable)

(i) XYZ, a resident partnership firm is in retail business buying fabric material regularly from ABC, a resident proprietorship firm. Details of transactions during P.Y. 2022-23 are as given:

Particulars	Date of Payment	Amt (₹)
Advance payment	1.4.2022	40,00,000

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Payment for supplies	*2.7.2022*	*20,00,000*
Advance payment	*4.802022*	*12,00,000*

XYZ achieved gross turnover of ₹ 12 crore from the business during the financial year 2021-22 and the gross business turnover for financial year 2022-23 turns out to be ₹ 9 crores. Gross business turnover of ABC for the financial year 2021-22 was ₹ 6 crores.

Will your answer be same, if the gross turnover of XVZ during the financial year 2021-22 includes ₹ 4 crore towards supply of material for charitable purposes?

(3 Marks)

(ii) MJ, a part time director of ABZ Pvt. Ltd. was paid an amount of ₹ 2,49,000 as commission on sales (which was not in the nature of Salary) for the period 01.04.2022 to 31.03.2023. ***(1 Mark)***

(iii) Mr. Kumar, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of ₹ 72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P, has received the interest on saving account ₹ 15,000 during the P.Y. 2022-23. His pension is also credited in this account. In the same bank he has deposited ₹ 10 Lakh in a Term Deposit @7% simple interest on 01.07.2022. He has no other income. He has not opted section 115BAC. Discuss requirement of filing of income tax return also. ***(3 Marks)***

Answer

(a) (1) Yes

(2) No

(3) Yes

(4) Yes

Alternative answer – *No, since allowances paid by the Government to a citizen of India for the services rendered outside India is exempt u/s 10(7).*

(5) No

(6) No

(b) Computation of taxable income of Mr. Sanjay for the A.Y. 2023-24

		Not ordinarily resident (RNOR)	Non-resident
(1)	**Interest on England Development Bonds (1/3 received in India),** amount of ₹ 20,000 being received in India would be taxable in case of both RNOR and non-resident.	20,000	20,000

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(2)	**Interest received from non-resident against a loan given to him to run a business in India** would be deemed to accrue or arise in India. Thus, such interest is taxable in case of both RNOR and non-resident	5,000	5,000
(3)	**Royalty received from Akhil, a resident for technical services given to run a business outside India** would not be deemed to accrue or arise in India, since such services are utilised for business carried outside India. Thus, royalty would not be taxable in case of both RNOR and non-resident.	-	-
(4)	**Income from business in Sri Lanka of ₹ 25,000 out of which ₹ 15,000 were received in India.** Whole of the income from business in Sri Lanka is taxable in case of RNOR, since business is controlled from India. However, in case of non-resident only the amount received in India would be taxable.	25,000	15,000
Taxable Income		**50,000**	**40,000**

(c) (i) Tax is required to be deducted at source under section 194Q by XYZ, being a buyer, since its turnover in the immediately preceding financial year i.e., F.Y. 2021-22 exceeds ₹ 10 crores and it has purchased goods exceeding ₹ 50 lakhs in the F.Y. 2022-23. TDS u/s 194Q would be 0.1% of the sum exceeding ₹ 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier.

Therefore, in the present case, XYZ, a resident partnership, is required to deduct tax at source –

On 2.7.2022 of ₹ 1,000, being @0.1% on ₹ 10 lakhs exceeding ₹ 50 lakhs (₹ 40,00,000 on 1.4.2022 + ₹ 20,00,000 on 2.7.2022).

On 4.8.2022 of ₹ 1,200, being @0.1% ₹ 12 lakhs.

No, in such case, the amount of turnover of XYZ would not exceed ₹ 10 crores in F.Y. 2021-22, since ₹ 4 crores towards supply of material for charitable purposes, being a non-business activity, would not be considered for the purpose of turnover.

Accordingly, XYZ is not required to deduct tax at source under section 194Q.

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(ii) ABZ Pvt. Ltd. is required to deduct tax at source u/s 194J @10% on ₹ 2,49,000 paid to MJ, a part time director, as commission, which is not in the nature of salary on which tax is deductible under section 192.

Therefore, ₹ 24,900 (₹ 2,49,000 x 10%) is required to be deducted at source.

(iii) Bank of Baroda, being a specified bank notified by the Central Government u/s 194P is required to deduct tax at source at the rates in force on the total income of Mr. Kumar, being a specified senior citizen (75 years or more) computed as follows:

Computation of total income of Mr. Kumar not opting for section 115BAC and tax liability for A.Y.2023-24

	Particulars	₹	₹
I	**Salaries**		
	Pension (₹ 72,000 x 12)	8,64,000	
	Less: Standard deduction u/s 16(ia)	50,000	8,14,000
II	**Income from Other Sources**		
	Interest on savings account	15,000	
	Interest on fixed deposit (₹ 10 lakh x 7% x 9/12)	52,500	
			67,500
	Gross total income		8,81,500
	***Less*: Deductions under Chapter VI-A**		
	Under section 80TTB		
	Interest on fixed deposit and savings account, restricted to ₹ 50,000, since Mr. Kumar is a resident Indian of the age of 60 years or more	50,000	50,000
	Total Income		**8,31,500**
	Computation of tax liability for A.Y. 2023-24		
	Tax on ₹ 8,31,500 [20% on income exceeding ₹ 5 lakhs, being the basic exemption limit, since Mr. Kumar is of the age of 80 years or more]		66,300
	Add: Health and Education Cess@4%		2,652
	Tax liability		**68,952**
	Tax liability (Rounded off)		**68,950**

Accordingly, Bank of Baroda is required to deduct tax at source of ₹ 68,950 for the P.Y. 2022-23. In such case, Mr. Kumar is not required to file his return of income for A.Y. 2023-24.

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Note – *The question mentions that Mr. Kumar has deposited ₹10 lakhs in a Term Deposit in the same bank but does not specify the duration of the term deposit. The above solution is given assuming that term deposit is not for 5 years. However, alternate assumption that such term deposit is for 5 years is also possible. In such a case, Mr. Kumar would be eligible for deduction under section 80C of ₹1,50,000 for deposit in 5 years term deposit. In that case, deduction under Chapter VI-A would be ₹2,00,000, total income would be ₹6,81,500 and tax liability (rounded off) would be ₹37,750.*

Question 3

(a) *Mr. Aryan, a resident individual aged 58 years, sells (unlisted) shares in a private sector company on May 17, 2022 for ₹10,00,000. The shares were bought on 01.08.2012 for a consideration of ₹2,00,000. Mr Aryan paid ₹2,000 as brokerage on sale of shares.*

Mr. Aryan deposited ₹5,00,000 in Capital Gain Account Scheme on 15.06.2023 (Before filing the return of income for the Assessment Year 2023-24).

On April 30, 2024 he withdraws ₹4,50,000 and purchases a residential house properly at Delhi on May 1, 2024 for ₹4,50,000.

Cost Inflation Index (CII) – F.Y. 2012-13 - 200, F.Y. 2022-23 - 331.

Ascertain –

(i) The amount of Capital Gain chargeable to tax for the A.Y. 2023-24.

(ii) Tax treatment (with mention of relevant assessment year) of the unutilized amount.

(4 Marks)

(b) *Ms. Neelima, a resident of Delhi, was employed by LMN Ltd. upto 15, March, 1992. At the time of leaving LMN Ltd., she was paid ₹3,50,000 as leave salary out of which ₹59,000 was exempted from tax under section 10(10AA).*

Thereafter, she joined CD (P) Ltd. and received ₹4,14,000 as leave salary at the time of retirement on December 31, 2022. In addition she received a gratuity of ₹12,00,000 from the employer (she is not covered by the Payment of Gratuity Act, 1972). The following information is available:

Average salary received during 11 months ending on December 31, 2022

From February 1 to July 31 (p.m.)	*₹22,600*
From August 1 to December 31 (p.m.)	*₹22,900*
Duration of service	*14 years 7 months*
Leave entitlement for every year of service	*45 days*
Leave availed while in service	*90 days*
Leave at her credit at the of retirement	*18 months*

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She received ₹ 5,20,000 from unrecognized provident fund of which she was a member (This constitutes employee's contribution ₹ 2,00,000; employer's contribution ₹ 2,10,000; interest on employee's contribution ₹ 60,000; interest on employer's contribution ₹ 50,000).

You are required to compute her total income for the assessment year 2023-24, clearly showing all workings. (Ignore section 115BAC provisions). ***(6 Marks)***

(c) *From the following calculate the taxable amount under the proper head of income for the Financial Year 2022-23 of Mr L, who is resident and 56 years old. The reasons should form part of your answer:*

(i) Dividend of ₹ 50,000 received in April 2022. The dividend was declared by the company - LMN Limited at its annual general meeting held in October 2021.

(ii) Advance forfeited amounting to ₹ 1,00,000 on 01.05.2022 as the negotiation for transfer of capital asset did not result in transfer of Capital Asset.

(iii) Cash Gift received from non-relative on the occasion of marriage of son ₹ 51,000.

(iv) During the Financial Year 2022-23, he received ₹ 99,000 as pension from employer of deceased wife. ***(4 Marks)***

Answer

(a) (i) Computation of Capital Gains on sale of unlisted shares for A.Y.2023-24

Particulars	₹
Net Sales Consideration [₹ 10,00,000 – ₹ 2,000]	9,98,000
Less: Indexed cost of acquisition [₹ 2,00,000 x 331/200]	3,31,000
	6,67,000
***Less*: Exemption u/s 54F**	
Deposit in Capital Gains Accounts Scheme on or before the due date of filing return of income would be deemed to be cost of new asset. Accordingly, exemption u/s 54F would be ₹ 3,34,168 [₹ 5,00,000 x ₹ 6,67,000 / ₹ 9,98,000]	3,34,168
Capital Gains chargeable to tax	**3,32,832**

(ii) Tax treatment of unutilized amount in Capital Gains Accounts Scheme

The unutilized amount will be chargeable to tax as capital gains on proportionate basis in the previous year in which the 3 years period from the date of transfer expires. In this case, the 3 year period from 17.5.2022 expires on 16.5.2025. Consequently, the proportional capital gains on the unutilized amount will be taxable in the A.Y. 2026-27, relevant to the P.Y. 2025-26.

The amount of capital gains for A.Y. 2026-27 would be ₹ 33,416 [₹ 3,34,168 – ₹ 3,00,752 (₹ 4,50,000 x ₹ 6,67,000 / ₹ 9,98,000).

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(b) Computation of Total income of Ms. Neelima for A.Y. 2023-24

Particulars	₹	₹	₹
Income under the head "Salaries"			
Basic Salary [₹ 22,600 x 4 + ₹ 22,900 x 5]		2,04,900	
Gratuity [₹ 12,00,000 – ₹ 1,59,040]		10,40,960	
Less: Exempt under section 10(10) - Least of the following:			
(i) Notified limit	20,00,000		
(ii) Actual gratuity received	12,00,000		
(iii) 1/2 x 22,720 [(22,600 x 6 + 22,900 x 4)/10[2]] x 14 [No. of completed years of services, ignore fraction]	1,59,040		
Leave encashment [₹ 4,14,000 – ₹ 2,27,500]		1,86,500	
Less: Exempt under section 10(10AA) - Least of the following:			
(i) Notified limit [₹ 3,00,000 – ₹ 59,000, amount exempted earlier]	2,41,000		
(ii) Actual leave salary received	4,14,000		
(iii) 10 months x 22,750 [(₹ 22,600 x 5 + 22,900 x 5)/10[3]]	2,27,500		
(iv) Cash equivalent of leave to his credit [₹ 22,750 x 11 [420 days (30 days x 14 years of service) *less* 90 days of leave availed /30]	2,50,250		
Employer's contribution from unrecognized provident fund received on retirement		2,10,000	
Interest on Employer's contribution from unrecognized provident fund received on retirement		50,000	
Gross Salary		16,92,360	
Less: Standard deduction u/s 16(ia)		50,000	
Taxable Salary			16,42,360

[2] average salary of last 10 months preceding the month of retirement for each completed year of service i.e., from February to November 2023

[3] average salary of last 10 months preceding retirement i.e., from March to December 2023

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Income from Other Sources			
Interest on employee's contribution from unrecognized provident fund		60,000	
Employee's contribution from unrecognized provident fund received on retirement [Not Taxable]		-	60,000
Gross Total Income/Total Income			**17,02,360**

(c) Computation of taxable amount of Mr. L for the A.Y.2023-24

Particulars	₹
Income from other Sources	
(i) Dividend from LMN Ltd. would be chargeable to tax under the head "Income from Other Sources". Since dividend was declared by LMN Ltd. at its annual general meeting held in October 2021, the amount of dividend was taxable in the A.Y. 2022-23. Accordingly, the dividend of ₹ 50,000 would not be taxable in the current A.Y. 2023-24.	-
Note - Since the exact amount of dividend to be taxable can be determined only at the time of payment or distribution of dividend, alternate view is possible to tax such dividend on receipt basis.[4] Consequently, the amount of dividend received in April, 2022, would be chargeable to tax in the current A.Y. 2023-24. Accordingly, the total income of Mr. L for A.Y. 2023-24 would be ₹ 2,85,000	
(ii) **Advance of ₹ 1,00,000 forfeited on 1.5.2022 -** The advance received and forfeited on or after 1.4.2014 would be subject to tax under section 56(2)(ix) under the head "Income from Other Sources".	1,00,000
(iii) **Cash gifts from non-relative on marriage of son of ₹ 51,000 –** Since gift is received by Mr. L from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x) under the head "Income from Other Sources".	51,000
(iv) **Pension from employer of deceased wife of ₹ 99,000 -** Pension after deducting lower of ₹ 33,000 i.e., 1/3 of such income or ₹ 15,000, is chargeable to tax under the head "Income from Other Sources". [₹ 99,000 – ₹ 15,000]	84,000
Taxable amount	**2,35,000**

[4] Moreover, as per section 194, tax on dividend is required to be deducted at the time of payment.

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Question 4

(a) *Mr. Jai, a resident individual, furnishes the following particulars of his income and other details for the previous year 2022-23:*

	₹
Income from the activity of owning and maintaining race horses	*40,000*
Income from crossword puzzle solving	*30,000*
Income from Agricultural land in Haryana	*25,000*
Dividend Income from domestic company (gross)	*15,000*
(Expenditure incurred in collecting the aforesaid dividend)	*2,500*
Income from cycling business	*1,50,000*
Loss from warehousing facility for storage of edible oils	*1,00,000*
Share of loss form PR associates, a firm (having 4 equal partners) in which he is a partner	*23,000*
The following items have been brought forward from the assessment year 2020-21:	
Brought forward loss form house property	*1,00,000*
Loss from the activity of owning and maintaining race horses	*37,000*
Loss from gambling	*10,000*
Unabsorbed depreciation	*15,000*
Speculation Loss	*20,000*

Mrs. Jai (wife of Mr Jai) got a salary of ₹ 1,20,000 from PR associates during the year 2022-23. She is not qualified for the job.

Compute the gross total income of Mr Jai for the assessment year 2023-24 ignoring the provisions of section 115BAC. ***(7 Marks)***

(b) *Mr. Suraj, an Indian citizen, gives the following details of his income and expenses during the year 2022-23:*

	₹
Income from profession	*11,70,000*
Winning from lottery	*70,000*
Contribution to ULIP 1971 plan for spouse	*70,000*
Cheque donation to National Defence Fund	*60,000*
Cheque donation to Government for promoting family planning	*35,000*
Cheque the deduction to approved public charitable institute	*1,20,000*

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Compute the deduction under section 80G allowable to him for the assessment year 2023-24. ***(3 Marks)***

(c) *Explain the provisions of tax collection at source for overseas remittance by an authorized dealer. Also enumerate the rate of tax to be collected and the amount on which no tax is to be collected.*

OR

In the context of Tax Return Preparer Scheme, 2006, explain the following:

(i) Eligible Persons ***(1 Mark)***

(ii) Educational Qualifications of Tax Return Preparer ***(1 Mark)***

(iii) Persons not entitled to act as return preparer ***(2 Marks)***

Answer

(a) Computation of gross total income of Mr. Jai for the A.Y.2023-24

Particulars	₹	₹
Income under the head "Salaries"		
Salary of Mrs. Jai from PR associates	1,20,000	
Less: Standard deduction under section 16	50,000	70,000
[Salary of Mrs. Jai would be includible in the income of Mr. Jai, since Mr. Jai has a substantial interest in PR associates by having 25% share of profit in it and Mrs. Jai is not qualified for the job]		
Profits and gains from business and profession		
Income from cycling business	1,50,000	
Share of loss from PR associate [Exempt under section 10(2A)]	-	
Less: Set off of loss from warehousing facility for storage of edible oils	1,00,000	
	50,000	
Less: Set off of unabsorbed depreciation of A.Y. 2020-21	15,000	35,000
*[**Note -** Alternatively, unabsorbed depreciation can be set-off against income from other sources other than income from crossword puzzle]*		
Income from Other Sources		
Income from crossword puzzle solving	30,000	
Income from agricultural land in Haryana [Exempt under section 10(1)]	-	

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Dividend from domestic company (gross)		15,000	
[No deduction is allowed from dividend income other than interest expenses]			
Income from the activity of owning and maintaining race horses	40,000		
Less: Set off of brought loss from the activity of owning and maintaining race horses of A.Y. 2020-21, since four years has not lapsed	(37,000)	3,000	48,000
Gross Total Income			**1,53,000**

Notes:

(i) Brought forward loss from house property can be set off only against income of house property. Hence, such loss has to be carried forward to A.Y. 2024-25.

(ii) Loss from gambling can neither be set-off nor be carried forward.

(iii) Brought forward loss from speculative business can be set off against income of any other speculative business. Hence, such loss has to be carried forward to A.Y. 2024-25.

(b) Computation of deduction available to Mr. Suraj under section 80G for A.Y. 2023-24

	Particulars	Amount (₹)
(i)	Donation to National Defence Fund by cheque [100% of ₹ 60,000 is allowed as deduction without any qualifying limit]	60,000
(ii)	Donation to Government for promoting family planning by cheque - 100% of ₹ 35,000, subject to qualifying limit of ₹ 1,17,000 [See Note below] is allowed as deduction	35,000
(iii)	Donation to approved public charitable institute by cheque is to be restricted to lower of - ₹ 60,000 (50% of ₹ 1,20,000) or - ₹ 41,000 [50% of qualifying limit after adjusting donation for family planning i.e., ₹ 82,000 (₹ 1,17,000 – ₹ 35,000)]	41,000
Deduction under section 80G		**1,36,000**
Note - Qualifying limit is ₹ 1,17,000 (10% of ₹ 11,70,000, being adjusted total income) Adjusted total income = ₹ 11,70,000 (₹ 11,70,000, being income from profession + ₹ 70,000, being winnings from lottery – ₹ 70,000, being deduction under section 80C)		

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(c) [First Alternative]

An authorised dealer, who receives amount, under the Liberalised Remittance Scheme of the RBI, for overseas remittance from a buyer, being a person remitting such amount out of India is required to collect tax at source at the time of debiting the amount or at the time of receipt of such amount, whichever is earlier.

Rate of TCS in case of collection by an authorized dealer

	Amount and purpose of remittance	Rate of TCS
(1)	Amount or aggregate of amounts remitted for a purpose other than for purchase of overseas tour programme package and • Amount or aggregate of amounts remitted **is less than ₹ 7 lakhs** in a financial year • amount or aggregate of the amounts remitted is in **excess of ₹ 7 lakhs**	 **Nil** (No TCS) **5%** in excess of ₹ 7 lakhs
(2)	Amount aggregate of the amounts remitted out is a loan obtained from any financial institution as defined in section 80E, for the purpose of pursuing any education; and the amount remitted exceed ₹ 7 lakhs in a financial year.	**0.5%** of the amount or aggregate of amounts in excess of ₹ 7 lakh

(c) [Second Alternative]

In the context of Tax Return Preparer scheme, 2006

(i) Eligible Persons

Any person being an individual or a Hindu undivided family

(ii) Educational Qualifications of Tax Return Preparer

An individual, who

- holds a bachelor degree from a recognised Indian University or institution, or
- has passed the intermediate level examination conducted by
  - the Institute of Chartered Accountants of India (ICAI) or
  - the Institute of Company Secretaries of India (ICSI) or
  - the Institute of Cost Accountants of India (ICWAI)

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(iii) Person not entitled to act as return preparer

An individual who is -

(i) any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings.

(ii) a legal practitioner, entitled to practice in any civil court in India.

(iii) an accountant

(iv) an employee of the "specified class or classes of persons" i.e., any person other than a company or a person whose accounts are required to be audited under section 44AB (tax audit) or under any other existing law, who is required to furnish a return of income under the Act.

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SECTION B: INDIRECT TAXES

1. *Section B comprises of questions from 5-8. In Section B, answer question no. 5 which is compulsory and any two questions from question nos. 6-8.*
2. *Working notes should form part of the answer.*
3. *All questions in Section B should be answered on the basis of position of GST law as amended by the Finance Act, 2022 as well as significant notifications/ circulars issued upto 30th April, 2023.*

Question 5

Miss Nitya, proprietor of M/s. Honest Enterprise, a registered supplier of taxable goods and services in the state of West Bengal, pays GST under regular scheme. It is not eligible for any threshold exemption. It provided the following information for the month of December 2022:

S. No.	Particulars	Amount (₹)
	OUTWARD SUPPLY:	
i.	Intra-state supply of goods to M/s. Natural & Sons	7,00,000
ii.	Intra-state transfer of goods to its branch office in the state of West Bengal. Both places are under the same GSTIN.	1,00,000
iii.	Provided inter-state supply of sponsorship services to XYZ Ltd of Chennai	80,000
iv.	Advance received for future supply of management consultancy service to Mr. Sharad (Intra-state supply)	40,000
	INWARD SUPPLY: (Intra-state)	
i.	Purchase of taxable goods from registered suppliers.	8,00,000
ii.	Availed Works Contract service for repair of office building. Amount of repair was debited in the profit & loss account.	30,000
iii.	Availed legal service form an advocate to represent the matter in the Court relating to collection of disputed proceed from customers.	50,000

Notes:

(i) Rate of CGST, SGST and IGST on all supplies are as below:

Particulars	CGST	SGST	IGST
Goods	2.5%	2.5%	5%
Supply of services	9%	9%	18%

(ii) Both inward and outward supplies given above are exclusive of taxes.

(iii) All the conditions necessary for availing the ITC have been fulfilled.

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(iv) Working note should form part of the answer.

Compute the net minimum GST payable in cash by M/s. Honest Enterprise for the month of December 2022. ***(8 Marks)***

Answer

Computation of minimum net GST payable in cash by M/s Honest Enterprise for the month of December 2022

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
GST payable under forward charge				
Intra-State supply of goods to M/s Natural & Sons	7,00,000	17,500 [7,00,000 × 2.5%]	17,500 [7,00,000 × 2.5%]	
Intra-State branch transfer [Such transfer is not a supply as the branch has the same GSTIN as that of the head office and thus, is not a distinct person.]	1,00,000	--	--	
Inter-State supply of sponsorship service to XYZ Ltd. of Chennai[1] [Since sponsorship service is provided to a body corporate, tax on the same is payable by recipient – XYZ Ltd. - under reverse charge.]	80,000			--
Advance received for future intra-State supply of management consultancy service (In case of supply of service, tax is payable at the time of receipt of advance amount too)	40,000	3,600 [40,000× 9%]	3,600 [40,000× 9%]	
Total output tax		21,100	21,100	
Less: ITC utilized		27,200	27,200	
Net GST payable [A]		Nil	Nil	

[1] *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.*

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Legal services availed[2] **[B]** [Tax on legal services availed by a business entity from an advocate is payable under reverse charge. Further, tax payable under reverse charge cannot be set off against ITC and thus, reverse charge has to be paid in cash since the tax payable under reverse charge is not an output tax.]	50,000	4,500 [50,000 × 9%]	4,500 [50,000 × 9%]	
Minimum net GST payable in cash [A] + [B]		**4,500**	**4,500**	

Working Note:

Computation of ITC available

Particulars	**Value (₹)**	**CGST (₹)**	**SGST (₹)**	**IGST (₹)**
Intra-State purchase of taxable goods [ITC of goods used in the course/ furtherance of business is available.]	8,00,000	20,000 [8,00,000 × 2.5%]	20,000 [8,00,000 × 2.5%]	
Works contract service for repair of office [ITC is available since the repair amount is debited in the profit & loss account and not capitalized in the books of account.]	30,000	2,700 [30,000 × 9%]	2,700 [30,000 × 9%]	
Legal services availed [ITC of services used in the course/ furtherance of business is available	50,000	4,500 [50,000 × 9%]	4,500 [50,000 × 9%]	
Total		**27,200**	**27,200**	

[2] *It has been most logically assumed that the aggregate turnover of M/s Honest Enterprise in the preceding financial year exceeds the threshold limit for registration.*

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Question 6

(a) *Mr. Dhanwan, an individual registered supplier of Ahmedabad (Gujarat), received the following amount towards rendering of the intra-state supply of various services in the month of January 2023:*

S. No.	Particulars	Amount (₹)
I.	Consideration received from security and housekeeping services provided to "Holy Foundation", an educational institution providing services by way of pre-school education, outside the school premises on its annual day function.	60,000
II.	Amount received as an honorarium for participation as guest anchor on "Apna TV" in relation to a debate.	2,25,000
III.	Sum received as hiring charges for provision of non-air conditioned contract carriage for transportation of employees to and from the work to M/s. Siddhi Pvt. Ltd, a registered person under the GST. Such hiring is for 3 months. Use of the contract carriage is at the disposal of the company.	1,50,000
IV.	Amount received for provision of training in recreation activities of music.	90,000
V.	Renting of residential flat to Mr. Sahil, proprietor of M/s. Dayaram & Sons, a registered person under GST for the purpose of his own residence (in personal capacity)	30,000

You are required to compute the value of supply on which GST is to be paid by Mr. Dhanwan for the month of January, 2023. All the amounts stated above are exclusive of GST, wherever applicable. Suitable notes should form part of the answer. ***(6 Marks)***

(b) *Examine whether the following activities would be treated as supply under GST law?*

(i) *Mr. Sonu from Chandigarh purchased a water cooler from Malhotra Bros. of Hoshiarpur for ₹25,000 to donate it to a temple situated in Hoshiarpur. Mr. Sonu directed Malhotra Bros. to engrave the words on the water cooler- "Donated by Mr. Sonu from Chandigarh" and dispatch the water cooler directly to the temple.*

(2 Marks)

(ii) *Wesco Ltd, a registered person in Ahmedabad (Gujarat) having head office located in Singapore, received management consultancy services free of cost from its head office.* ***(2 Marks)***

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Answer

(a) Computation of value of supply on which GST is to be paid by Mr. Dhanwan

S No	Particulars	Amount (₹)
I.	Security and housekeeping services provided to an educational institution [Not exempted, since security and housekeeping services are performed outside the educational institution.]	60,000
II.	Honorarium for participation as guest anchor [Liable to GST since it is not specifically exempt and it is also not covered in Schedule III of the CGST Act, 2017 (neither supply of good nor supply of service).]	2,25,000
III.	Hiring charges for non-air conditioned contract carriage [Not exempt, since exemption available only where transportation take place over pre-determined route and pre-determined schedule and contract carriage is hired for a period of time, during which the contract carriage is at the disposal of the recipient]	1,50,000
IV.	Training in recreational activities of music [Services by way of training in recreational activities relating to arts or culture, by an individual are exempt.]	-
V.	Renting of residential flat to Mr. Sahil [Renting of residential dwelling to a proprietor (registered under GST) of a proprietorship concern in his personal capacity for use as his own residence and on his own account is exempt.]	-
	Value of taxable supply on which GST is to be paid by Mr. Dhanwan	**4,35,000**

(b) (i) Donations received by the charitable organisations are treated as consideration only if there exists, *quid pro quo,* i.e., there is an obligation on part of recipient of the donation or gift to do anything (supply a service).

Since the name of the donor, Mr. Sonu is displayed in temple as an expression of gratitude and public recognition of his act of philanthropy and is not aimed at advertising or promotion of his business, hence, donation of water cooler by Mr. Sonu to temple is without *quid pro quo* and is, thus, not a supply under GST law.

However, supply of water cooler by Malhotra Bros. to Mr. Sonu is supply as it is made for consideration in course or furtherance of business.

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(ii) As per schedule I, in case of import of services by a person from a related person or from his establishments located outside India, without consideration, in the course or furtherance of business shall be treated as "supply".

Hence, services[3] received by Wesco Ltd. qualify as supply even though such services have been provided free of cost by the head office.

Question 7

(a) Mr. Venaram proprietor of M/s. Lalit Kirana Stores is registered as a composition dealer in the Jodhpur district of Rajasthan. He has not furnished the statement for payment of self-assessment tax in the form GST CMP-08 for two consecutive quarters. He placed an order for purchase of taxable goods worth ₹ 5,50,000 with M/s. Bob & Sons (a partnership firm), a registered dealer in the Bikaner district of Rajasthan. M/s. Bob & Sons has been regularly filing its GST returns. M/s. Bob & Sons wants to generate E-way bill with respect to intra-state supply to be made to M/s. Lalit Kirana Stores. Whether M/s. Bob & Sons is allowed to generate E-way bill as per the provisions of CGST Act, 2017? Answer with proper reasoning. ***(3 Marks)***

(b) Dream World Pvt. Ltd is registered under GST in the State of Haryana. During the Financial Year 2022-23, its annual aggregate turnover was ₹ 12 crore. In the month of April 2023, it supplied goods worth ₹ 12 lakh to Nightmare Ltd (a registered taxable person).

(i) You are required to ascertain whether issue of e-invoice is mandatory in respect of this transaction?

(ii) What would be your answer if Nightmare Ltd is a SEZ (Special Economic Zone) unit? ***(4 Marks)***

(c) Mr. Atul of Chennai is a registered dealer under GST. He has an opening balance of input tax credit of ₹ 1,20,000 (IGST) lying in the electronic credit ledger relating to the month of November,2022. During the month, a legal proceeding has been initiated under the GST law which resulted in a tax liability of ₹ 80,000 (IGST, other than RCM liability). Mr. Atul agrees with the tax liability and wants to use the balance lying in the electronic credit ledger towards payment of same.

He seeks your opinion with regard to the provisions of GST laws as to whether he is allowed to use the amount lying in the electronic credit ledger for making the payment of tax liability, payable as a consequence of the proceeding? ***(3 Marks)***

Answer

(a) Where a person paying tax under composition scheme has not furnished the statement for payment of self-assessed tax for 2 consecutive quarters, e-way bill shall not be allowed to be generated in respect of any outward movement of goods by such person.

[3] *It has been assumed that services are provided in the course or furtherance of business.*

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However, this restriction does not apply to generation of e-way bill in respect of inward movement of goods by the defaulter.

Hence, in the given case, M/s. Bob & Sons is allowed to generate e-way bill with respect to supply to be made to M/s Lalit Kirana Stores since M/s. Bob & Sons, who is making the outward movement of goods, is a regular return filer.

(b) **(i)** All registered businesses with an aggregate turnover (based on PAN) in any preceding financial year from 2017-18 onwards greater than ₹ 10 crore are required to issue e-invoices.

Thus, issuance of e-invoice is mandatory in respect of the given transaction as the aggregate turnover of Dream World Pvt. Ltd. in the preceding financial year exceeded ₹ 10 crore.

(ii) Issue of e-invoice is exempt in respect of supply BY the SEZ (Special Economic Zone) unit.

Here SEZ unit is receiver of supply. Thus, the issuance of e-invoice is mandatory in respect of given transaction even in case where Nightmare Ltd. is a SEZ (Special Economic Zone) unit.

(c) The amount available in the electronic credit ledger of IGST may be used for making any payment towards tax under the CGST Act or the SGST Act or the IGST Act other than tax payable under reverse charge .

It is clarified that any payment towards output tax, payable as a consequence of any proceeding instituted under the provisions of GST laws, can be made by utilization of the amount available in the electronic credit ledger of a registered person.

Thus, Mr. Atul is allowed to use the credit of IGST in electronic credit ledger for making payment of tax liability of ₹ 80,000, payable as a consequence of the legal proceeding.

Question 8

(a) Briefly explain the provisions relating to reversal of input tax credit in case of non-payment of tax by the supplier and re-availment thereof?

OR

Explain the procedure for revocation of cancellation of registration where the registration of a person is cancelled suo-motu by the proper officer as per the provisions of CGST Act, 2017. ***(5 Marks)***

(b) Mr. Sameer, a registered person under GST, is unable to tile GSTR-1 on the reason being shown that tax payable under GSTR-1 which has been filed in respect of last tax period exceeds the tax payable under GSTR-3B which has been filed for the corresponding tax period. Explain the procedure to be followed by the department and Mr. Sameer for the same as per the provisions of Rule 88C of the CGST Rules 2017. ***(5 Marks)***

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Answer

(a) Where a registered person (recipient) avails ITC in GSTR-3B for a tax period in respect of an invoice/debit note details of which have been furnished by supplier in GSTR-1/using IFF, but supplier does not furnish his return till 30th September following the end of FY in which the ITC in respect of invoice/ debit note has been availed, then the amount of ITC shall be reversed by recipient, while furnishing a return in Form GSTR-3B on or before 30th November following the end of such FY during which such ITC has been availed.

However, where the said amount of ITC is not so reversed by recipient, such amount shall be payable by the said person along with interest.

Further, where the said supplier subsequently furnishes the return in Form GSTR-3B for the said tax period, the said registered person may re-avail the amount of such credit in the return in Form GSTR-3B for a tax period thereafter.

(a) Alternative

Where the registration of a person is cancelled *suo-motu* by the proper officer, such registered person may apply for revocation of the cancellation of registration to such proper officer, within 30 days (or within extended time period) from the date of service of the order of cancellation of registration.

If the proper officer is satisfied that there are sufficient grounds for revocation of cancellation, he may revoke the cancellation of registration, by an order within 30 days of receipt of application and communicate the same to applicant.

Otherwise, he may reject the revocation application. However, before rejecting the application, he has to first issue SCN to the applicant who shall furnish the clarification within 7 working days of service of SCN.

The proper officer shall dispose the application (accept/reject the same) within 30 days of receipt of clarification.

(b) In the given case, Mr. Sameer would be intimated on the portal and his email address of such difference and be directed to either

(i) pay the differential tax liability along with interest, or

(ii) explain the difference,

within 7 days period[4].

[4] *It is assumed that the tax payable by Mr. Sameer as per Form GSTR-1 for the last tax period exceeds the tax liability as per Form GSTR-3B for that period by more than the specified amount and specified percentage, as per rule 88C of the CGST Rules, 2017.*

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On receiving such intimation, Mr. Sameer should either

(i) deposit the amount specified in the said intimation fully or partially, along with interest and furnish the details on the common portal or

(ii) furnish a reply explaining the reasons for any amount of differential tax liability remaining unpaid,

within 7 days period.

Where any amount specified in the said intimation remains unpaid within 7 days' period and where no explanation is furnished by Mr. Sameer or where the explanation furnished by him is not found to be acceptable by the proper officer, the said amount shall be recoverable from him.

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