aglasem.com

FOR CA INTERMEDIATE EXAM PREPARATION

CA Intermediate 2021 Question Paper · Paper 4 Taxation

EXAM	YEAR	TYPE	SUBJECT
CA Intermediate	2021	Question Paper	Paper 4 Taxation

DATE

January 2021

IPCE (New Syllabus)
Paper - 4 Taxation

(1)

QAZ2

JAN 2021

Roll No. .....

Total No. of Printed Pages – **12**

Total No. of Questions – **8**

Maximum Marks – **70**

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The barcoded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No barcode sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 marks

1. **Section – A** comprises question **1-4**. In Section – A, answer Question No. **1** which is compulsory and any **2** question from question No. **2-4**. All question in Section – A relate to assessment year 2020-21, unless otherwise stated.

   Section – B comprises question **5-8**. In section – B, answer Question No. **5** which is compulsory and any **2** question from question No. **6-8**.
2. All questions should be answered on the basis of position of GST law as amended upto 30th April, 2020.
3. Working notes should form part of the answer.
4. Answers to the 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/her answers in Hindi will not be evaluated.

QAZ2 **P.T.O.**

© The Institute of Chartered Accountants of India

PART – II

SECTION – A

1. Mr. Krishna (aged 65 years), a furniture manufacturer, reported a profit of ₹ 5,64,44,700 for the previous year 2019-20 after debiting/crediting the following items : **14**

Debits :

1. ₹ 20,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.

2. ₹ 48,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.

3. Interest paid ₹ 1,67,000 on loan taken for purchase of E-vehicle on 15-05-2019 from a bank. The E-vehicle was purchased for the personal use of his wife.

4. His firm has purchased timber under a forest lease of ₹ 20,00,000 for the purpose of business.

Credits :

1. Income of ₹ 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.

2. He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2015-16. Amount due from the debtor (which was written off as bad) was ₹ 5,00,000, out of which tax officer had only allowed ₹ 3,00,000 as deduction in computing the total income for assessment year 2016-17.

3. He sold some furniture to his brother for ₹ 7,00,000. The fair market value of such furniture was ₹ 9,00,000.

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

Other information :

1. Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.

2. Mr. Krishna purchased a new car of ₹ 12,00,000 on 1st September, 2019 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.

3. Mr. Krishna had sold a house on 30th March, 2017 and deposited the long term capital gains of ₹ 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st March, 2020, he sold another house property in which he resided for ₹ 1 crore. He earned a long term capital gain of ₹ 50,00,000 on sale of this property. On 25th March, 2020, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.

4. Mr. Krishna also made the following payments during the previous year 2019-20

   – Lump-sum premium of ₹ 30,000 paid on 30th March, 2020 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30th March, 2020 to 29th March, 2025.

   – ₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Krishna for the assessment year 2020-21.

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

2. (a) Examine TDS/TCS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS/TCS is required to be deducted/collected. **8**

(i) On 1.5.2019, Mr. Brijesh made three fixed deposits of nine months each of ₹ 3 lakh each, carrying interest @ 9% with Mumbai Branch, Delhi Branch and Chandigarh Branch of CBZ Bank, a bank which had adopted CBS. These Fixed Deposits mature on 31.01.2020.

(ii) Mr. Marwah, aged 80 years, holds 6½ % Gold Bonds, 1977 of ₹ 2,00,000 and 7% Gold Bonds 1980 of ₹ 3,00,000. He received yearly interest on these bonds on 28.02.2020.

(iii) M/s AG Pvt. Ltd. took a loan of ₹ 50,00,000 from Mr. Haridas. It credited interest of ₹ 79,000 payable to Mr. Haridas during the previous year 2019-20. M/s AG Pvt. Ltd. is not liable for tax audit during previous years 2018-19 and 2019-20.

(iv) Mr. Prabhakar is due to receive ₹ 6 lakh on 31.3.2020 towards maturity proceeds of LIC policy taken on 1.4.2016, for which the sum assured is ₹ 5 lakhs and the annual premium is ₹ 1,40,000.

(b) Mr. Xavier, an Indian resident individual, set up an unit in Special Economic Zone (SEZ) in the financial year 2015-16 for production of Mobile Phones. The unit fulfills all the conditions of Section 10AA of the Income-tax Act, 1961. **6**

© The Institute of Chartered Accountants of India

During the financial year 2018-19, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD.

Capital expenditure in respect of warehouse amounted to ₹ 93 lakhs (including cost of land ₹ 13 lakhs). The warehouse became operational with effect from 1st April, 2019 and the expenditure of ₹ 63 lakhs was capitalized in the books on that date.

Further details relevant for the financial year 2019-20 are as follows :

Particulars	₹
Profit from operation of warehousing facility before claiming deduction under section 35AD	1,10,00,000
Net Profit of SEZ (Mobile Phone) Unit	50,00,000
Export sales of SEZ (Mobile Phone) Unit	90,00,000
Domestic Sales of SEZ (Mobile Phone) Unit	60,00,000

Compute income tax (including AMT under 115JC) payable by Mr. Xavier for Assessment Year 2020-21.

3. (a) Rajesh was employed in Axis Ltd., Mumbai. He received a salary of ₹ 45,000 p.m. from 1.04.2019 to 20.09.2019. He resigned and left for Dubai for the first time on 28.09.2019 and got monthly salary of rupee equivalent of ₹ 90,000 from 1.10.2019 to 31.03.2020. His salary for October to December was credited in his Mumbai bank account directly and the salary for January to March 2020 was credited in his Dubai bank account. 7

The cost of his air tickets to Dubai costing ₹ 1,50,000 was funded by her sister staying in London. The cost of his initial stay at Dubai costing ₹ 40,000 was funded by one of his friend staying in Delhi.

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

He further received interest of ₹ 10,500 on his fixed deposits and ₹ 7,500 on his savings a/c with his Mumbai bank. He also paid LIC Premiums of ₹ 15,000 for self, ₹ 10,000 for spouse and ₹ 25,000 for dependent mother aged 71 years.

Compute taxable income of Mr. Rajesh for the Assessment Year 2020-21.

(b) Mr. Hari aged 57 years is a resident of India. He provides you the following details of his incomes pertaining to F.Y. 2019-20. 4

- Interest on Non-Resident (External) Account maintained with State Bank of India as per RBI stipulations – ₹ 3,55,000
- Interest on savings bank account maintained with State Bank of India – ₹ 8,000
- Interest on Fixed Deposits with Punjab National Bank – ₹ 40,000

He seeks your advice on his liability to file return of income as per Income-tax Act, 1961 for the Assessment Year 2020-21.

What will be your answer, if he has incurred ₹ 4 lakhs on travel expenses of his newly married son and daughter in law's honeymoon in Canada ?

(c) "Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for technical services is to be taxed in India irrespective of territorial nexus." Examine the correctness or otherwise of the given statement. 3

© The Institute of Chartered Accountants of India

4. (a) During the previous year 2019-20, following transactions took place in respect of Mr. Raghav who is 56 years old. **8**

(i) Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under –

	House 1 Self-occupied	House 2 Let-out
Rent received per month	Not applicable	₹ 60,000
Municipal taxes paid	₹ 7,500	Nil
Interest on loan (taken for purchase of property)	₹ 3,50,000	₹ 5,00,000
Principal repayment of loan (taken from HDFC bank)	₹ 2,00,000	₹ 3,00,000

(ii) Mr. Raghav had a house in Delhi. During financial year 2010-11, he had transferred the house to Ms. Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Ms. Vamika during the previous year 2019-20 from such house property is ₹ 5,50,000.

(iii) Mr. Raghav receives following income from M/s M Pvt. Ltd. during P.Y. 2019-20 :

- Interest on Debentures of ₹ 7,50,000; and
- Salary of ₹ 3,75,000. He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s M Pvt. Ltd. as on 31.3.2020 is as under –

	Equity shares	Preference shares
Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	25%
Mr. Jai Kishan (brother of Mrs. Raghav)	98%	75%

© The Institute of Chartered Accountants of India

(iv) Mr. and Mrs. Raghav forms a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of ₹ 1 crore to such firm. Firm had no income or expense other than the interest of ₹ 9,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.

(v) Mr. Raghav holds preference shares in M/s K Pvt. Ltd. He instructed the company to pay dividends to Ms. Geetanshi, daughter of his servant. The transfer is irrevocable for the life time of Geetanshi. Dividend received by Ms. Geetanshi during the previous year 2019-20 is ₹ 13,00,000.

(vi) Other income of Mr. Raghav includes

- Interest from saving bank account of ₹ 2,00,000
- Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the Assessment Year 2020-21.

(b) Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion. **3×2 =6**

Attempt any **two** out of the following **three** parts :

(i) Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of ₹ 10,000. He sub-lets the land to Mr. Manish for a monthly rent of ₹ 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of ₹ 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.

© The Institute of Chartered Accountants of India

(ii) Mr. Pratham, a non-resident in India, received a sum of ₹ 1,14,000 from Mr. Rakesh, a resident and ordinarily resident in India. The amount was paid to Pratham on account of transfer of right to use the manufacturing process developed by Pratham. The manufacturing process was developed by Mr. Pratham in Singapore and Mr. Rakesh uses such process for his business carried on by him in Dubai.

(iii) Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income-tax since paddy as grown on land is not fit for sale in its original form.

SECTION – B

5. Star Ltd. a registered supplier in Karnataka has provided the following details for supply of one machine : **8**

	Particulars	Amount in (₹)
(1)	List price of Machine supplied [Exclusive of items given below from (2) to (4)]	80,000
(2)	Tax levied by Local Authority on sale of such machine	6,000
(3)	Discount of 2% on the list price of machine was provided (recorded in the invoice of Machine)	
(4)	Packing expenses for safe transportation charged separately in the invoice	4,000

© The Institute of Chartered Accountants of India

Star Ltd. received ₹ 5,000 as subsidy from a NGO on sale of each such machine. The Price of ₹ 80,000 of the machine is after considering such subsidy.

During the month of February, 2020, Star Ltd. supplied three machines to Intra-state customers and one machine to Inter-state customer.

Star Ltd. purchased inputs (intra-state) for ₹ 1,20,000 exclusive of GST for supplying the above four machines during the month.

The Balance of ITC at the beginning of February, 2020 was :

CGST	SGST	IGST
₹ 18,000	₹ 4,000	₹ 26,000

Note :

(i) Rate of CGST, SGST and IGST to be 9%, 9% and 18% respectively for both inward and outward supplies.

(ii) All the amounts given above are exclusive of GST.

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

Compute the minimum net GST payable in cash by Star Ltd. for the month of February, 2020.

6. (a) Green Agro Services, a registered person provides the following information relating to its activities during the month of February 2020 : **6**

Gross Receipts from	(₹)
Services relating to rearing of sheeps	6,00,000
Services by way of artificial insemination of horses	4,00,000
Processing of Sugarcane into Jaggery	8,00,000
Milling of paddy into rice	7,50,000
Services by way of fumigation in a warehouse of Agricultural produce	1,80,000

All the above receipts are exclusive of GST.

Compute the value of taxable supplies under GST laws for the month of February, 2020.

© The Institute of Chartered Accountants of India

(b) Satya Sai Residents Welfare Association, a registered person under GST has 30 members each paying ₹ 8,000 as maintenance charges per month for sourcing of goods and services from third persons for common use of its members. 4

The Association purchased a water pump for ₹ 59,000 (inclusive of GST of ₹ 9,000) and availed input services for ₹ 23,600 (inclusive of GST of 3,600) for common use of its members during February 2020.

Compute the total GST payable, if any, by Satya Sai Residents Welfare Association, for February 2020.

GST rate is 18%. All transactions are intra-state.

There is no opening ITC and all conditions for ITC are fulfilled.

7. (a) ABC Cinemas, a registered person engaged in making supply of services by way of admission to exhibition of cinematograph films in multiplex screens was issuing consolidated tax invoice for supplies at the close of each day in terms of section 31(3)(b) of CGST Act, 2017 read with fourth proviso to rule 46 of CGST Rules, 2017. 4

During the month of October 2019, the Department raised objection for this practice and asked to issue separate tax invoices for each ticket.

Advise ABC Cinemas for the procedure to be followed in the light of recent notification.

(b) Agni Ltd. a registered supplier wishes to transport cargo by road between two cities situated at a distance of 368 kilometres. Calculate the validity period of e-way bill under rule 138(10) of CGST Rules, 2017 for transport of the said cargo, if it is over dimensional cargo or otherwise. 3

(c) The aggregate Turnover of Mr. Prithvi, a registered person for the FY 2017-18 and 2018-19 were 140 lakhs and 170 lakhs respectively. He has not filed the annual return (GSTR-9) under section 44(1) of CGST Act, 2017 before the due date. 3

Discuss the penal provisions, if any, for not filing the returns before the due date.

© The Institute of Chartered Accountants of India

8. (a) Mr. Anurag a famous Author is engaged in supply of services by the way of transfer or permitting the use or enjoyment of a copyright covered under clause (a) of subsection (1) of section 13 of the Copyright Act, 1957 relating to original literary works to a publisher. 5

Explain in brief the conditions under which an Author can choose to pay tax under forward charge.

(b) Under the provision of section 29(1) of CGST Act, 2017 read with rule 21A of CGST Rules, 2017 related to suspension of registration if the registered person has applied for cancellation of registration, what is the period and manner of suspension of registration ? 5

OR

Explain the circumstances under which proper officer can cancel the registration on his own of a registered person under CGST Act, 2017. 5

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com