

PAPER – 4: TAXATION

PART – I: STATUTORY UPDATE

Significant Notifications and Circulars in income-tax and indirect taxes
issued between 1st May 2014 and 31st October, 2014

A. INCOME TAX

NOTIFICATIONS

1. Notification of Cost Inflation Index for F.Y.2014-15 (Notification No. 31/2014, dated 11-6-2014)

The Central Government has, in exercise of the powers conferred by clause (v) of *Explanation* to section 48, vide this notification specified the Cost Inflation Index for the financial year 2014-15 as 1024.

S. No.	Financial Year	Cost Inflation Index	S. No.	Financial Year	Cost Inflation Index
1.	1981-82	100	18.	1998-99	351
2.	1982-83	109	19.	1999-2000	389
3.	1983-84	116	20.	2000-01	406
4.	1984-85	125	21.	2001-02	426
5.	1985-86	133	22.	2002-03	447
6.	1986-87	140	23.	2003-04	463
7.	1987-88	150	24.	2004-05	480
8.	1988-89	161	25.	2005-06	497
9.	1989-90	172	26.	2006-07	519
10.	1990-91	182	27.	2007-08	551
11.	1991-92	199	28.	2008-09	582
12.	1992-93	223	29.	2009-10	632
13.	1993-94	244	30.	2010-11	711
14.	1994-95	259	31.	2011-12	785
15.	1995-96	281	32.	2012-13	852
16.	1996-97	305	33.	2013-14	939
17.	1997-98	331	34.	2014-15	1024

2. **Increase in ceiling limit for investment in Public Provident Fund [Notification No. G.S.R. 588 (E), dated 13-8-2014]**

In exercise of the powers conferred by Section 3(4) of the Public Provident Fund Act, 1968, the Central Government has increased annual ceiling limit for deposit in PPF A/c from ₹ 1 lakh to ₹ 1.50 lakhs by amending the Public Provident Fund Scheme, 1968.

3. **Rate of depreciation in respect of windmills installed on or after 01.04.2014 (Notification No. 43/2014, dated 16-9-2014)**

The Central Board of Direct Taxes has, vide this notification amended the rate of depreciation on certain renewable energy devices. Accordingly, the following renewable energy devices would be eligible for depreciation @80% from A.Y. 2015-16, if they are installed on or after 1st April 2014 –

- (a) Wind mills and any specially designed devices which run on wind mills
- (b) Any special devices including electric generators and pumps running on wind energy

This implies that if the aforesaid renewable energy devices were installed on or before 31st March 2014, they would be eligible for depreciation @ 15% from A.Y. 2015-16.

The applicable rate of depreciation for A.Y. 2014-15 and A.Y. 2015-16, based on date of installation of such renewable energy devices, have been tabulated hereunder for a better understanding of the amendment made vide this notification.

Date of installation	Rate of depreciation	
	A.Y. 2014-15	A.Y. 2015-16
On or before 31.03.2012	80%	15%
Between 1.04.2012 to 31.03.2014	15%	15%
On or after 01.04.2014	N.A	80%

B. INDIRECT TAXES

CENTRAL EXCISE

STTG certificate issued by the Indian Railways along with the photocopies of the railway receipts to be the eligible documents for availing CENVAT credit

Rule 9 of the CENVAT Credit Rules, 2004 has been amended to include Service Tax Certificate for Transportation of Goods by Rail (herein after referred to as STTG Certificate) issued by the Indian Railways, along with the photocopies of the railway receipts mentioned in the STTG certificate as a document eligible for taking CENVAT credit. Thus, in case of transport of goods by rail service, service tax can be availed on the basis of the STTG certificate.

[Notification No. 26/2014 – CE (N.T.) dated 27.08.2014]

SERVICE TAX**1. Service provided with respect to Kailash Mansarovar and Haj pilgrimage exempted from service tax**

Mega exemption *Notification No. 25/2012-ST dated 20.06.2012* has been amended to exempt the services provided by a specified organisation in respect of a religious pilgrimage facilitated by the Ministry of External Affairs of the Government of India, under bilateral arrangement from service tax.

Specified organisation shall mean:

- (a) Kumaon Mandal Vikas Nigam Limited, a Government of Uttarakhand Undertaking; or
- (b) Haj Committee of India and State Haj Committees constituted under the Haj Committee Act, 2002, for making arrangements for the pilgrimage of Muslims of India for Haj.

Thus, the religious pilgrimage organized by the Haj Committee and Kumaon Mandal Vikas Nigam Ltd. will not be liable to service tax.

[Notification No.17/2014 - ST dated 20.08.2014]

2. Board/Chief Commissioner empowered to issue supplementary instructions [New rule 12 inserted in the Service Tax Rules, 1994]

With effect from 01.10.2014, Board or the Chief Commissioners of Central Excise may issue instructions for any incidental or supplemental matters for the implementation of the provisions of the Finance Act, 1994.

[Notification No. 19/2014-ST dated 25.08.2014]

3. Clarification regarding levy of service tax on joint venture

CBEC has issued following clarification regarding levy of service tax on joint venture:

- (i) **Services provided by the members of the Joint Venture (JV) to the JV and vice versa or between the members of the JV:** In accordance with Explanation 3(a) of the definition of service under section 65B(44) of the Finance Act, 1994, JV (an unincorporated temporary association constituted for the limited purpose of carrying out a specified project) and the members of the JV are treated as distinct persons and therefore, taxable services provided for consideration, by the JV to its members or vice versa and between the members of the JV are taxable.
- (ii) **Cash calls (capital contributions) made by the members to the JV:** If cash calls are merely a transaction in money, they are excluded from the definition of service provided in section 65B(44) of the Finance Act, 1994. Whether a 'cash call' is 'merely.... a transaction in money' [in terms of section 65B(44) of the Finance Act, 1994] and hence not in the nature of consideration for taxable service, would

depend on the comprehensive examination of the Joint Venture Agreement, which may vary from case to case. Detailed and close scrutiny of the terms of JV agreement may be required in each case, to determine the service tax treatment of cash calls.

[Circular No. 179/5/2014-ST dated 24.09.2014]

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Basic Concepts

1. Compute the tax liability of Mr. Dherya, aged 58 years, for the assessment year 2015-16, from the following details:

	₹
Income from salaries	25,28,000
Profits and gains from business or profession	73,00,000
Income from other sources (Interest on bank Fixed Deposits)	3,82,000
Amount deposited in Public Provident Fund (PPF)	1,30,000

Residential Status and Scope of total income

2. (a) The business of a HUF is transacted from India and all the policy decisions are taken here. Mr. Aryan, the karta of the HUF, who was born in Mumbai, settled in London, since 1999. He visits India every year for 95 days. Determine the residential status of Mr. Aryan and the HUF for A.Y. 2015-16.

(b) Mr. Sachin settled in Australia in the year 1990, earned the following incomes during the financial year 2014-15. Compute his total income for the assessment year 2015-16.

Sr. No.	Particulars	Amount (₹)
1.	Fees for technical services rendered in India, but received in Australia	75,000
2.	Interest on Savings Bank Deposit in Indian Bank	12,000
3.	Interest on Australia Development Bonds (only 50% of interest received in India)	55,000
4.	Dividend from Indian company received in Australia	28,000
5.	Profit from a business in Nagpur, but managed directly	95,000

	from Australia	
6.	Short term capital gain on sale of shares of an Indian company received in India	90,000
7.	Agricultural income from a land situated in Punjab	55,000
8.	Rent received in respect of house property at Bhopal	1,25,000

Income which do not form part of total income

3. State, with reference to the provisions of the Income-tax Act, 1961, whether the following are chargeable to tax and if so, the amount liable to tax :
- Leave travel concession of ₹ 1,75,000 (being the total cost of tickets) received by Mr. Sahil, employee of P Ltd. for his holiday (with spouse & one child) to Mumbai by Air India (executive class). The flight fare for executive class is 2.5 times the fare for economy class.
 - Income-tax of ₹ 43,000 paid by employer on non-monetary perquisites provided to employees.
 - Sargam received ₹ 29,000 as his share of income from a partnership firm.
 - Mr. Tarun has derived an income of ₹ 80,000 derived from manufacturing, growing and curing coffee in India during the financial year 2014-15.
 - Mr. Bhuwan received ₹ 15 lacs as Gratuity from XYZ Ltd., on his retirement, after completing 25 years and 3 months of service. Last drawn salary is ₹ 90,000. He is covered by the Payment of Gratuity Act, 1972.

Salaries

4. (a) Mr. Mayur is a production manager of M/s Iron & Ore Co. Ltd. During the financial year 2014-15, he gets the following emoluments from his employer:

Basic Salary	
Up to 31.7.2014	₹ 22,000 p.m.
From 01.8.2014	₹ 26,000 p.m.
Transport allowance	₹ 1,800 p.m.
Contribution to recognised provident fund	15% of basic salary
Children education allowance	₹ 400 p.m. per child for two children
City compensatory allowance	₹ 500 p.m.
Hostel expenses allowance	₹ 420 p.m. per child for two children
Tiffin allowance (actual expenses ₹ 4,300)	₹ 6,000 p.a.
Tax on employment paid by the employer	₹ 3,200

Compute taxable salary of Mr. Mayur for the Assessment year 2015-16.

(b) Mr. Saksham, who retired from the services of Silverqueen Ltd., on 31.1.2015 after putting in service of 5 years, received the following amounts from the employer for the year ending on 31.3.2015:

- Salary @ ₹ 21,000 p.m. comprising of basic salary of ₹ 12,000, Dearness allowance of ₹ 4,500, City compensatory allowance of ₹ 3,000 and Night duty allowance of ₹ 1,500.
- Pension @ 35% of basic salary from 1.2.2015.
- Leave salary of ₹ 80,000 for 225 days of leave accumulated during 5 years @ 45 days leave in each year. He has not availed any earned leave during his tenure of 5 years and utilized only his casual leave.
- Gratuity of ₹ 75,000.

Compute the taxable salary of Mr. Saksham for the assessment year 2015-16.

Income from house property

5. Mr. Vikul acquired a residential house in Delhi at a cost of ₹ 42,00,000 on 01.04.2014, in respect of which he took a housing loan of ₹ 24,00,000 from Canara Bank @12% p.a on the same date. There has been no principal repayment upto 31.03.2015.

The house is having two identical units. First unit (area 1200 sq. Ft) of the house is self-occupied by Mr. Vikul and another unit (area 400 sq.ft) is rented for ₹ 6,000 p.m. from 1st April, 2014. The rented unit was vacant for four months during the year. The particulars of the house for the previous year 2014-15 are as under:

Standard Rent	₹ 2,30,000 p.a.
Municipal Valuation	₹ 2,67,000 p.a.
Fair Rent	₹ 2,48,000 p.a.
Municipal tax paid by Mr. Vikul	12% of the Municipal Valuation
Light and water charges	₹ 8,000 p.a.
Insurance charges	₹ 7,500 p.a.
Painting expenses	₹ 50,000 p.a.

Compute income from house property of Mr. Vikul for the A.Y.2015-16.

Profits and gains of business or profession

6. (a) State with reasons, the deductibility or otherwise of the following expenses/payments under the Income-tax Act, 1961, while computing income under the head "Profits and gains of business or profession" for the Assessment Year 2015-16:

- (i) ₹ 70 crore and ₹ 30 crore invested in new plant & machinery by ABC Ltd., a manufacturing company, during P.Y. 2013-14 and 2014-15, respectively.
- (ii) MNO Ltd. paid ₹ 2,50,000 as technical fees to a non-resident on which tax is deducted during the previous year 2014-15 but deposited on 31.8.2015.
- (iii) Bus & Train Pvt. Ltd. incurred ₹ 1,80,000 towards CSR Expenditure during the previous year 2014-15.
- (iv) XYZ Ltd. has not deducted tax at source on the amount of ₹ 7,50,000 paid as annual salary to Mr. Raghav, an employee of the company during the previous year 2014-15. Mr. Raghav has not furnished any declaration to his employer regarding any investment made by him or any other income earned or loss incurred by him for the previous year 2014-15.
- (v) Rise & Co. has set up a warehousing facility for storage of sugar. It commenced operations on 01.04.2013. In July 2014, Rise & Co. incurred capital expenditure of ₹ 72 lakhs on purchase of building.

Would your answer be different, if the company has set up a warehousing facility of food grain?

- (b) Mr. Xavier commenced the business of operating goods vehicles on 1.4.2014. He purchased the following vehicles during the P.Y.2014-15. Compute his income under section 44AE for A.Y.2015-16.

	Type of Vehicle	Number	Date of purchase
(1)	Light Goods Vehicles	1	10.4.2014
		3	15.3.2015
(2)	Medium goods vehicle	2	16.7.2014
		1	2.1.2015
(3)	Heavy goods vehicle	1	29.8.2014
		2	23.2.2015

Capital Gains

7. Mr. Satvik purchased a residential house in February, 1979 for ₹ 2,40,000. In addition, he also paid stamp duty at the rate of 10% on stamp duty value of ₹ 2,50,000. Fair market value of property on 1.4.1981 is ₹ 2,60,000.

In January 1985, Mr. Satvik entered into an agreement with Mr. Naresh for sale of such property for ₹ 4,20,000 and received an amount of ₹ 50,000 as an advance. However, the sale transaction did not ultimately materialise and Mr. Satvik forfeited the advance.

In March, 1988, Mr. Satvik constructed the first floor by incurring a cost of ₹ 1,35,000. He entered into an agreement for sale of the said house on 25th August, 2014 for

₹ 91,00,000 to Mr. Manik and received ₹ 7,50,000 as advance. However, such advance was forfeited by Mr. Satvik on account of failure on the part of Mr. Manik in making balance payment.

Finally, on 18th October 2014, Mr. Satvik sold the house to Mr. Munish for ₹ 95,00,000. Stamp duty was paid at the rate of 12% on the stamp duty value of ₹ 97,00,000. Satvik has paid brokerage @ 1% of sale consideration to the broker.

He invested ₹ 35,00,000 in NHAI Bonds on 29th February, 2015 and ₹ 25,00,000 in RECL bonds on 10th April 2015.

Compute the capital gains chargeable to tax in the hands of Mr. Satvik for the assessment year 2015-16.

Financial Year	Cost Inflation Index
1981-82	100
1984-85	125
1987-88	150
2014-15	1024

Income from Other Sources

8. (a) On 12.12.2014, Mr. Gagan (a bank employee) received ₹ 8,50,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2011-12.

Out of this interest, ₹ 2,05,000 relates to the financial year 2011-12; ₹ 2,15,000 to the financial year 2012-13; and ₹ 2,30,000 to the financial year 2013-14. Only ₹ 2,00,000 relates to financial year 2014-15. He incurred ₹ 75,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2015-16?

- (b) Discuss the tax implications under section 56(2) in respect of each of the following transactions –
- Sharma's son transferred shares of XYZ Ltd. to Sharma HUF without any consideration. The fair market value of the shares is ₹ 3.25 lakh.
 - Sunnyvale (P) Ltd. purchased 10,500 equity shares of Solid (P) Ltd. at ₹ 95 per share. The fair market value of the share on the date of transaction is ₹ 115.
 - Balaji (P) Ltd. issued 26,000 equity shares of ₹ 10 each at a premium of ₹ 7. The fair market value of each share on the date of issue is ₹ 13.

Income of Other Persons included in assessee's Total Income

9. The following are the particulars of income earned by Mr. Chandrapal and his family members:

	Particulars	₹
(i)	Income from Chandrapal' s profession	2,50,000
(ii)	Mrs. Chandrapal' s salary as primary teacher	1,06,000
(iii)	Minor son Arav (interest on fixed deposits with a bank which were gifted to him by his uncle)	12,000
(iv)	Arav also has income by way winnings from lottery (gross)	2,20,000
(v)	Minor daughter Pallavi's earnings from sports	1,05,000
(vi)	Cash gift received by minor married daughter Garima from friend of Mrs. Chandrapal	55,000
(vii)	Income of minor son Arvind, who suffers from disability specified in section 80U.	1,20,000

Discuss the tax implications in the hands of Mr. Chandrapal and Mrs. Chandrapal.

Set off and Carry Forward of Losses

10. Mr. Alok furnishes the following details for year ended 31.03.2015:

Particulars	₹
Short term capital gain	1,65,000
Loss from speculative business	58,000
Long term capital gain on sale of land	27,000
Long term capital loss on sale of shares (securities transaction tax not paid)	1,06,000
Income from business of textile (after allowing current year depreciation)	73,000
Income from activity of owning and maintaining race horses	21,000
Income from salary	1,38,000
Loss from house property	66,000

Following are the brought forward losses:

- (i) Losses from activity of owning and maintaining race horses-pertaining to A.Y.2012-13 ₹ 37,000.
- (ii) Brought forward loss from business of textile ₹ 82,000 - Loss pertains to A.Y.2007-08.

Compute gross total income of Mr. Alok for the Assessment Year 2015-16. Also state the losses which are eligible for carry forward to the Assessment Year 2016-17.

Deductions from Gross Total Income

11. The gross total income of Mr. Mayank (New retail investor) for the Assessment Year 2015-16, was ₹ 8,00,000. He has made the following investment/payments during the year 2014-15-

	Particulars	₹
1.	L.I.C. premium paid (Policy value ₹ 2,00,000) (taken on 1.07.2012)	30,000
2.	Contribution to Public Provident Fund (PPF)	110,000
3.	Repayment of housing loan to Indian Bank	35,000
4.	Payment made to LIC pension fund	28,000
5.	Medical insurance premium for self, wife and dependent children.	22,000
6.	Mediclaime premium for parents (aged over 80 years), who are not dependent on Mayank	32,000
7.	Invested in units of equity oriented fund of Rajiv Gandhi Equity Savings Scheme, 2013	47,000
8.	Donation to Congress Party by crossed cheque	30,000

Compute eligible deduction under Chapter VI-A for the Assessment Year 2015-16.

Computation of Total Income of an individual

12. Dr. Shivkumar, a resident individual at Pune, aged 55 years is running a clinic. His Income and Expenditure Account for the year ending March 31st 2015 is as under :

Expenditure	₹	Income	₹
To Medicine consumed	8,60,000	By Consultation and Medical charges	25,20,000
To Staff salary	5,58,000	By Income-tax refund (principal ₹ 16,000, interest ₹ 2,500)	18,500
To Clinic consumables	1,82,000	By Dividend from Indian companies	38,000
To Rent paid	2,40,000	By Winning from lottery	42,000
To Administrative expenses	3,80,000	(Net of TDS)	
To Donation to IIT Delhi for Research approved under section 35(2AA)	1,20,000	By Rent	61,000
To Net Profit	3,39,500		
	<u>26,79,500</u>		<u>26,79,500</u>

- (i) Rent paid includes ₹ 45,000 paid by cheque towards rent for his residence.

- (ii) Clinic equipments (rate of depreciation 15%) are:
- | | |
|----------------------------|------------|
| 01.04.2014 Opening WDV | ₹ 5,50,000 |
| 09.03.2015 Acquired (cost) | ₹ 1,55,000 |
- (iii) Rent received relates to property let out at Pune. The municipal tax of ₹ 12,000, paid in February 2015, has been included in "administrative expenses".
- (iv) Dr. Shivkumar availed a loan of ₹ 5,30,000 from a bank for higher education of his daughter. He repaid principal of ₹ 70,000, and interest thereon ₹ 60,000 during the year 2014-15.
- (v) He paid ₹ 65,000 as tuition fee to the university for full time education of his son.

From the above, compute the total income of Dr. Shivkumar for the A.Y.2015-16.

Provisions concerning deduction of tax at source/Provisions for filing of Return of Income

13. (a) Examine the applicability of the provisions for tax deduction at source in the following cases -
- The firm, M/s Duplicate, has two resident partners, Mr. Vikul and Mr. Rahul. During the previous year, the firm paid ₹ 25,000 and ₹ 30,000 as interest on capital to Mr. Vikul and Mr. Rahul, respectively.
 - Fee of ₹ 41,000 paid to Dr. Kunal Garg by Taneja (HUF) for surgery performed on Master Vatsal Taneja, son of the Karta of HUF.
 - Mr. Dheeraj, a resident, is due to receive ₹ 5.50 lakhs on 31.3.2015, towards maturity proceeds of LIC policy taken on 1.4.2012, for which the sum assured is ₹ 4.5 lakhs and the annual premium is ₹ 55,000.
- (b) State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:
- If an individual does not pay self-assessment tax before furnishing the return of income, the return furnished shall be deemed to be an invalid return.
 - Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

Exemptions and Abatements under Service Tax

14. Examine the validity of following statements with reference to service tax law:
- Consultancy services provided to Government in relation to slum improvement and upgradation is exempt from service tax.
 - The transport of goods in a vessel attracts service tax at 40% of the gross amount charged.

- (iii) Both service providers and service receivers need to satisfy the condition of non-availability of CENVAT credit for claiming abatement of 75% of gross amount charged in case of GTA service.
- (iv) Service provided for transport of passengers by air conditioned buses is exempt from service tax.

Note: All the above cases relate to period on or after October 1, 2014.

Negative List of Services

15. Compute the value of taxable service and service tax payable on the services provided in each of the following independent cases:-

Services rendered	Amount (₹)
Sale of space for advertisement in a leading newspaper	55,000
Services related to preparation of advertisement	65,000
Sale of space for advertisements on internet websites	50,000
Sale of time for advertisement to be broadcast on TV Channel	1,00,000
Advertising in business directories	25,000
Advertising on film screen in theatres	90,000

Note: All the amounts stated above are exclusive of service tax.

Valuation under Central Excise

16. Safe Kitchen is a leading manufacturer of pressure cookers. Legal Metrology Act, 2009 requires declaration of retail sale price on the package of pressure cookers and pressure cookers are also notified under section 4A of Central Excise Act, 1944 [Retail Sale Price (RSP) based valuation] with notified rate of abatement of 25%.

Calculate excise duty payable on 50 pieces cleared during October, 2014 using the following information furnished by Safe Kitchen assuming the rate of excise duty as 12% plus 2% education cess and 1% secondary and higher education cess:

No. of pieces sold	Particulars
10	RSPs printed on the package of pressure cooker are ₹ 4,500 and ₹ 3,800.
20	RSP printed on the package of 15 pieces sold in Delhi is ₹ 3,000 per piece RSP printed on the package of 5 pieces sold in Haryana is ₹ 2,800 per piece
20	RSP printed on the date of removal of package from factory is ₹ 3500 per unit. However, after removal from factory RSP is increased to ₹ 4,100 per piece

Would the provisions of section 4A of Central Excise Act, 1944 apply had the goods not been notified by Central Government and manufacturer voluntarily affixed RSP on the products?

Eligibility of CENVAT Credit

17. Mr. Govinda, a manufacturer, is engaged in the manufacture of excisable goods. While Mr. Govinda avails CENVAT credit of excise duty paid on the inputs, he does not avail CENVAT credit of service tax paid on input services as he thinks that being a manufacturer, he cannot do so. However, his Tax Consultant has advised him that as per the provisions of the CENVAT Credit Rules, 2004, he can also avail CENVAT credit of service tax paid on input services used for manufacture of final products.

Having come to know of his entitlement, Mr. Govinda wants to avail CENVAT credit of service tax paid on input services used by him for manufacture of final products. You are required to examine whether Mr. Govinda can take CENVAT credit of service tax paid on input services on following invoices:

Bill No.	Date of issue of invoice
701	02.09.2014
705	14.09.2014
803	15.10.2015

Mr. Govinda wants to avail CENVAT credit on 12.03.2015.

Computation of CENVAT Credit

18. Compute the CENVAT credit available with Tony Motors Ltd., manufacturer of cars, in respect of the following services billed to it in the month of October, 2014:-

S.No.	Services billed	Service tax paid* [₹]
(i)	Sales promotion services	2,00,000
(ii)	Market research for the new car launched by Tony Motors Ltd.	4,00,000
(iii)	Quality control services	1,00,000
(iv)	Routine maintenance of the cars manufactured by Tony Motors Ltd.	50,000
(v)	Insurance of the cars manufactured	60,000
(vi)	Outdoor catering services provided to the employees	3,00,00

*including EC and SHEC

Service Tax Procedures

19. Shyam, a fashion designer, hires a cab from Sai, who is engaged in the business of renting of motor cabs. Value of services provided by Sai is ₹ 3,000. Sai avails CENVAT credit on inputs and capital goods. Who is liable to pay service tax in this case?

Will your answer be different if Elite Ltd., a manufacturing company, hires the cab from Sai?

Also, compute the amount of service tax payable.

Note: Shyam, Sai and Elite Ltd. are located in Chennai.

Valuation of taxable service

20. Miss Sunidhi, a qualified Chartered Accountant, provides the following information for quarter ended 30th September, 2014:-

S. No.	Particulars	₹
1.	Preparation of accounts of various clients	4,00,000
2.	Fee received from United Nations Organization (returned in next quarter)	6,00,000
3.	Advance received from Lexicon Ltd.	5,00,000
4.	Preparation of accounts of charitable trusts	2,00,000

All the amounts received are exclusive of service tax except amount received from charitable trusts. Calculate value of taxable services.

Note: Fee received from United Nations Organization is returned in the succeeding quarter. Miss Sunidhi is not eligible for small service provider exemption available under *Notification No. 33/2012-ST dated 20.06.2012*.

Central Sales Tax

21. Briefly examine the validity of the following statements with reference to the Central Sales Tax Act, 1956:-

- (i) Sale includes a mortgage or hypothecation of or a charge or pledge on goods.
- (ii) Central sales tax is leviable on the inter-state sale of goods by any unincorporated association or body of persons to a member.
- (iii) Penultimate sales for exports is not liable to central sales tax.
- (iv) Central sales tax is collected by State Government of the State where goods are produced.

Value Added Tax

22. Compute net VAT liability of Tirupati from the following information:-

Particulars	₹	₹
Raw materials from foreign market (including duty paid on imports @ 20%)		1,20,000
Raw material purchased from local market		
Cost of raw material	2,50,000	
Add: Excise duty @ 12%	<u>30,000</u>	
	2,80,000	
Add: VAT @ 4%	<u>11,200</u>	2,91,200
Raw material purchased from neighbouring State (including CST @ 2%)		51,000
Storage and transportation cost		10,000
Manufacturing expenses		21,000

Tirupati sold goods to Suresh and earned profit @ 12% on the cost of production. VAT rate on sale of such goods is 4%.

Point of Taxation

23. A body corporate received some taxable services from one of its directors, Mr. Manan on 05.10.2014 for which an invoice was raised on 08.10.2014. Who is liable to pay service tax in this case and also determine the point of taxation in accordance with Point of Taxation Rules, 2011, if the body corporate makes the payment for the said services on:-

Case I: 27.12.2014

Case II: 13.01.2015

Customs Duty

24. Trident Enterprises imported goods from Bangladesh in a vehicle. Determine the rate of import duty to be considered for computation of import duty from the following information:-

Particulars	Date	Rate of customs duty
Date of filing of Bill of Entry	15.10.2014	10%
Date of arrival of vehicle	20.10.2014	12%
Date on which goods were allowed to be cleared from the land customs station	28.10.2014	11%
Date of payment for the goods imported	31.10.2014	8%

Payment under service tax

25. The aggregate value of taxable services provided by Mr. X in the year 2013-14 is ₹ 6,00,000. Accordingly, Mr. X had paid service tax of ₹ 60,000 in cash and ₹ 14,160 by utilizing CENVAT credit. Mr. X is liable to pay service tax of ₹ 10,000 for the quarter ending December, 2014. Is Mr. X required to make e-payment of service tax? Also, determine the due date for payment of service tax.

SUGGESTED ANSWERS/HINTS**1. Computation of tax liability of Mr. Dherya for A.Y. 2015-16**

	₹
Income from salaries	25,28,000
Profits and gains from business or profession	73,00,000
Income from other sources (Interest on bank fixed deposit)	<u>3,82,000</u>
Gross total income	1,02,10,000
<i>Less: Deduction under Chapter VI-A</i>	
- Amount deposited in PPF allowed as deduction under section 80C (since it is within the overall limit of ₹1,50,000)	<u>1,30,000</u>
Total income	1,00,80,000
Tax liability	
Upto ₹ 2,50,000	Nil
₹ 2,50,001 – ₹ 5,00,000 @ 10%	25,000
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000
₹ 10,00,001 – ₹ 1,00,80,000 @ 30%	<u>27,24,000</u>
<i>Add: Surcharge @ 10%, since total income exceeds ₹ 1 crore</i>	<u>2,84,900</u>
	31,33,900
<i>Less: Marginal Relief (See Note below)</i>	<u>2,28,900</u>
	29,05,000
<i>Add: Education cess@ 2% and Secondary and higher education cess @ 1%</i>	<u>87,150</u>
Tax liability	<u>29,92,150</u>

Note: Marginal relief in case of individuals is available where the total income exceeds ₹ 1 crore and surcharge is payable @10% of income tax. In such case, the amount of income-tax payable on the total income together with surcharge cannot exceed the amount of tax payable on ₹ 1 crore plus the income in excess of ₹ 1 crore.

Therefore, in this case, marginal relief would be ₹ 2,28,900 [excess of the tax payable on total income (including surcharge) i.e., ₹ 31,33,900 minus ₹ 29,05,000 (being the amount of tax payable on income of ₹ 1 crore i.e., ₹ 28,25,000 plus ₹ 80,000, the total income in excess of ₹ 1 crore)].

2. (a) **Determination of Residential Status of Mr. Aryan for A.Y. 2015-16**

Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions -

- (i) He has been in India during the previous year for a total period of 182 days or more, **or**
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

Mr. Aryan visits India every year for 95 days. Therefore, his period of stay during 4 preceding previous years is 380 days (95 days x 4).

Since he satisfies one of the basic conditions, he is a resident for the assessment year 2015-16.

An individual is said to be a resident but not ordinarily resident, if

- (i) he is a non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year; **or**
- (ii) he has been in India for a period of 729 days or less during the 7 previous years preceding the relevant previous year.

In this case, Mr. Aryan's period of stay in India during 7 preceding previous years is 665 days (95 days x 7). Therefore, he satisfies condition (ii) mentioned above.

Since Mr. Aryan's period of stay in India during the past 7 previous years is less than 730 days, **he is a resident but not ordinarily resident** during the previous year 2014-15 relevant to the assessment year 2015-16.

Determination of Residential Status of HUF for A.Y. 2015-16

Since the business of the HUF is transacted from India and nothing is mentioned regarding its control and management, it is assumed that the control and management is wholly situated in India. Therefore, the HUF is a resident for the P.Y.2014-15.

However, since Mr. Aryan, Karta of the HUF is a resident but not ordinarily resident during the previous year 2014-15, **the HUF would also be resident but not ordinarily resident** during the previous year 2014-15 relevant to the assessment year 2015-16.

- (b) Mr. Sachin, is a non-resident, as he settled in Australia since 1990. Accordingly, his total income would be computed as follows:

Computation of total income of Mr. Sachin for the A.Y. 2015-16

S. No.	Particulars	Mr. Sachin (Non-Resident) (₹)
1.	Fees for technical services rendered in India, but received in Australia (See Note 1)	75,000
2.	Interest on Savings Bank Deposit in Indian Bank (See Note 1)	12,000
3.	Interest on Australia Development Bonds (See Note 1)	27,500
4.	Dividend from Indian Company received in Australia (See Note 2)	-
5.	Profit from a business in Nagpur but managed directly from Australia (See Note 1)	95,000
6.	Short term capital gain on sale of shares of an Indian company received in India (See Note 1)	90,000
7.	Agricultural income from a land in Punjab (See Note 3)	-
8.	Income from house property at Bhopal (See Note 4)	87,500
	Gross Total income	3,87,000
	<i>Less:</i> Deduction under Chapter VI-A Section 80TTA (See Note 5)	10,000
	Total Income	3,77,000

Notes:

- (1) In case of a resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:

- (i) Income received or deemed to be received in India; and
- (ii) Income which accrues or arises or is deemed to accrue or arise in India.

Therefore, fees for technical services rendered in India would be taxable in hands of Mr. Sachin, even though he is a non-resident.

The income referred to in Sl. No. 2, 5 and 6 are also taxable in his hands, since these incomes accrue or arise or deemed to accrue or arise in India.

Interest on Australia Development Bonds to the extent of 50% would be taxable in India, since this portion is received in India.

- (2) Dividend received from Indian company is exempt under section 10(34), both in the case of residents and non-residents. Hence, dividend received would not be includible in Mr. Sachins's total income.
- (3) Agricultural income from a land situated in India is exempt under section 10(1).
- (4) Income from house property:

Particulars	₹
Rent received (Rent received has been assumed as Gross Annual Value in the absence of information relating to fair rent, municipal value and standard rent)	1,25,000
Less: Deduction under section 24 @ 30%	<u>37,500</u>
Net income from house property	<u>87,500</u>

The net income from house property in India would be taxable in his hands since the accrual and receipt of the same are in India.

- (5) In case of an individual, interest upto ₹ 10,000 from savings account with, *inter alia*, a bank is allowable as deduction under section 80TTA.

3.

S. No.	Taxable/ Not Taxable/ Partly Taxable	Amount liable to tax (₹)	Reason
(i)	Partly taxable	1,05,000	Section 10(5), which provides exemption of leave travel concession, exempts only an amount not exceeding the air economy fare, if the journey is performed by air. Since, the amount reimbursed to Mr. Sahil is for travelling in executive class, only the fare of economy class, being ₹ 70,000 (₹ 1,75,000/2.5), would be exempt under section 10(5) and the balance would be taxable.
(ii)	Not taxable	Nil	Income-tax paid by employer on behalf of employee on non-monetary perquisites provided to employees is exempt in the hands of an employee under section 10(10CC).
(iii)	Not taxable	Nil	Share of a partner in the total income of the firm is exempt under section 10(2A) in the hands of a partner.

(iv)	Partly taxable	20,000	As per Rule 7B of the Income-tax Rules, 1962, 25% of the income from manufacturing, growing and curing of coffee in India is taxable as business income under the head "Profits and gains from business or profession", and the balance 75%, being agricultural income, is exempt.
(v)	Partly taxable	5 lacs	As per section 10(10), least of the following amount would be exempt in the hands of Mr. Bhuwan out of ₹ 15 lacs received as gratuity: (i) ₹ 10 lacs (notified limit) (ii) ₹ 15 lacs (gratuity actually received) (iii) 12,98,077 [15/26 x ₹ 90,000 x 25] Therefore, ₹ 10 lacs would be exempt and balance of ₹ 5 lacs is taxable in the hands of Mr. Bhuwan.

4 . (a) Computation of taxable salary of Mr. Mayur for the Assessment Year 2015-16

Particulars	₹	₹
Basic Salary (₹ 22,000 x 4) +(₹ 26,000 x 8)		2,96,000
Transport allowance (₹ 1,800 x 12)	21,600	
Less: Exempt under section 10(14) (₹ 800 x 12)	<u>9,600</u>	12,000
Children education allowance (₹ 400 x 2 x 12)	9,600	
Less: Exempt under section 10(14) (₹ 100 x 2 x 12)	<u>2,400</u>	7,200
City Compensatory Allowance (₹ 500 x 12)		6,000
Hostel Expenses Allowance (₹ 420 x 2 x 12)	10,080	
Less: Exempt under section 10(14) (₹ 300 x 2 x 12)	<u>7,200</u>	2,880
Tiffin allowance (fully taxable)		6,000
Tax paid on employment [See Note Below]		3,200
Employer's contribution to recognized provident fund in excess of 12% of salary (i.e., 3% of ₹ 2,96,000)		<u>8,880</u>
Gross Salary		3,42,160
Less: Tax on employment under section 16(iii)		<u>3,200</u>
Taxable salary		<u>3,38,960</u>

Note: Professional tax paid by employer should be included in the salary of Mr. Mayur as a perquisite since it is discharge of monetary obligation of the employee

by the employer. Thereafter, deduction of professional tax paid is allowed to the employee from his gross salary.

(b) **Computation of taxable salary of Mr. Saksham for A.Y. 2015-16**

Particulars	₹	₹
Income from Salaries		
Gross salary received during 1.4.2014 to 31.1.2015 @ ₹ 21,000 p.m. (₹ 21,000 x 10)		2,10,000
Pension for 2 months @ 35% of the basic salary of ₹ 12,000 p.m.		8,400
Leave Salary	80,000	
Less: Exempt under section 10(10AA) (See Note 1)	<u>60,000</u>	20,000
Gratuity	75,000	
Less: Exempt under section 10(10) (See Note 2)	<u>30,000</u>	45,000
Total Income		2,83,400

Notes:

1. Leave encashment is exempt to the extent of least of the following :

	Particulars	₹
(i)	Statutory limit	3,00,000
(ii)	Cash equivalent of leave for 30 days for 5 years (₹ 12,000 × 5)	60,000
(iii)	10 months salary (based on average salary of last 10 months) (10 × ₹ 12,000)	1,20,000
(iv)	Actual amount received	80,000

Therefore, ₹ 60,000 is exempt under section 10(10AA).

2. Assuming that the employee is not covered under the Payment of Gratuity Act, 1972, Gratuity is exempt to the extent of least of the following :

	Particulars	₹
(i)	Statutory limit	10,00,000
(ii)	½ x average salary of last 10 months for every completed year of service [5 x ₹ 6,000 (₹ 12,000 x ½)]	30,000
(iii)	Actual gratuity received	75,000

Therefore, ₹ 30,000 is exempt under section 10(10).

3. It has been assumed that dearness allowance does not form part of salary for retirement benefits and therefore, not included in "Salary" for the purpose of computation of leave encashment and gratuity.

5. Computation of Income from house property of Mr. Vikul for A.Y. 2015-16

	Particulars	₹	₹
(A)	Rented unit (25% of total area)		
	Step I - Computation of Expected Rent		
	Municipal valuation (₹ 2,67,000 x ¼)	66,750	
	Fair rent (₹ 2,48,000 x ¼)	62,000	
	Standard rent (₹ 2,30,000 x ¼)	57,500	
	Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	57,500	
	Step II - Actual Rent		
	Rent receivable for the whole year (₹ 6,000 x 12)	72,000	
	Step III - Computation of Gross Annual Value		
	Actual rent received owing to vacancy (₹ 72,000 - ₹ 24,000)	48,000	
	Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual value		
	Gross Annual Value (GAV)		48,000
	Less: Municipal taxes [(12% of ₹ 66,750)]		<u>8,010</u>
	Net Annual Value (NAV)		39,990
	Less: Deductions under section 24		
	(a) 30% of NAV	11,997	
	(b) Interest on borrowed capital (₹ 2,88,000 x ¼),	<u>72,000</u>	<u>83,997</u>
	Taxable income from let out portion		(44,007)
(B)	Self occupied unit (75% of total area)		
	Annual value	Nil	
	Less: Deduction under section 24:		
	- Interest on borrowed capital (₹ 2,88,000 x ¼), ₹ 2,16,000 restricted to ₹ 2,00,000	<u>2,00,000</u>	<u>(2,00,000)</u>
	Income from house property		<u>(2,44,007)</u>

Notes:

1. No deduction will be allowed separately for light and water charges, insurance charges and painting expenses.

2. Mr. Vikul is eligible for a maximum deduction of ₹ 2,00,000 under section 24 in respect of interest on housing loan taken in respect of a self-occupied property, for which he is claiming benefit of "Nil" annual value. Therefore, deduction in respect of the interest of ₹ 2,16,000 relating to self-occupied portion would be restricted to ₹ 2,00,000, which would represent his loss from self-occupied portion.
6. (a) (i) As per section 32AC(1), manufacturing companies would be entitled to deduction @ 15% of aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2013-14 and F.Y. 2014-15, if the same exceeds ₹ 100 crore.

Further, sub-section (1A) to section 32AC provides that deduction @15% would be available to a manufacturing company which acquired and installed new plant and machinery for a sum exceeding ₹ 25 crore in the F.Y. 2014-15.

In this case, ABC Ltd. is not entitled for deduction under section 32AC(1), since the aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2013-14 and F.Y. 2014-15 does not exceed ₹ 100 crore. However, it would be entitled for deduction of ₹ 4.5 crore (15% of ₹ 30 crore) under section 32AC(1A), in respect of the new plant and machinery acquired and installed during the financial year 2014-15, since the amount of investment made during the previous year 2014-15 exceeds ₹ 25 crore.

The deduction under section 32AC would be in addition to the deduction under section 32 in respect of depreciation and additional depreciation.

Computation of depreciation and additional depreciation under section 32

Particulars	₹ (in crores)
Written down value as on 01.04.2014 (See Note below)	45.50
Add: Plant and Machinery acquired during the previous year 2014-15	<u>30.00</u>
Written down value as on 31.03.2015	75.50
Less: Normal Depreciation @ 15%	11.33
Less: Additional Depreciation (20% of ₹ 30 crore)	<u>6.00</u>
WDV as on 01.04.2015	<u>58.17</u>
Total deduction under section 32 (₹ 11.33 crore + ₹ 6.0 crore)	17.33

Notes:

1. Computation of written down value as on 1st April 2014

Cost of the machinery acquired	70.00 crore
Less: Normal Depreciation @ 15%	10.50 crore

Less: Additional Depreciation@ 20%	<u>14.00 crore</u>
Written Down Value as on 01st April 2014	<u>45.50 crore</u>

2. It has been assumed that the new plant and machinery was put to use for more than 180 days during the P.Y. 2013-14 and P.Y 2014-15.
 3. It is also assumed that the new plant and machinery does not include any plant or machinery which is previously used at any time within or outside India or which is installed in any office premises or residential accommodation or guest house or any office appliance or any vehicle, ship or aircraft.
- (ii) As per section 40(a)(i), interest, royalty, fee for technical services or other sum chargeable under the Act which is payable to a non-resident is not allowable as deduction while computing business income if tax on such payment has not been deducted during the previous year or after deduction, is not paid on or before the due date specified for filing of return under section 139(1).

In the present case, MNO Ltd deducted tax at source on payment made to a non-resident in the previous year 2014-15 and deposited such amount on 31.08.2015, before the due date under section 139(1) i.e., 30th September 2015. Therefore, the disallowance under section 40(a)(i) would not be attracted, in this case.

- (iii) Under section 37(1) of the Income-tax Act, 1961, only expenditure, not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

Explanation 2 to section 37 provides that any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of ₹ 1,80,000 incurred by Bus & Train Pvt. Ltd. towards CSR expenditure referred to in section 135 of the Companies Act, 2013 shall not be allowed as deduction under section 37.

However, the *Explanatory Memorandum* to the Finance (No.2) Bill, 2014 clarifies that CSR expenditure, which is of the nature described in sections 30 to 36, shall be allowed as deduction under these sections subject to fulfilment of conditions, if any, specified therein.

Therefore, if the CSR expenditure incurred by Bus & Train Pvt. Ltd. is of the nature described in sections 30 to 36, the same would be allowed as deduction under the respective section, subject to fulfilment of the conditions prescribed thereunder.

- (iv) Section 40(a)(ia) provides that 30% of any sum payable to a resident, on which tax is deductible at source under Chapter XVII-B and such tax has not been deducted or after deduction has not been paid on or before the due date specified in section 139(1) would be disallowed.

Section 192 of Chapter XVII-B provides that tax is required to be deducted on the payment made as salaries. Tax is to be deducted on the estimated income at the average of income tax computed on the basis of the rates in force for the financial year in which payment is made.

In this case, XYZ Ltd. has not deducted tax at source on the amount of ₹ 7,50,000 paid as salary to Mr. Raghav. Therefore, ₹ 2,25,000 being 30% of ₹ 7,50,000 would be disallowed under section 40(a)(ia).

- (v) As per section 35AD, investment linked deduction is available in respect of any of the specified businesses defined thereunder. 100% of the capital expenditure is available in respect specified business *inter alia* business of warehousing facility for storage of sugar. Therefore, in this case, Rise & Co. would be eligible for deduction of ₹ 72,00,000 (100% of ₹ 72 lakhs), in the P.Y. 2014-15. No other deduction is allowable in respect of the said sum under any other provision of the Income-tax Act, 1961.

Yes, the answer would be different, if the company has set up a warehousing facility of food grain. As per section 35AD(1A), a weighted deduction of 150% of the capital expenditure is available in respect of certain specified businesses which include *inter alia* business of warehousing facility for storage of agricultural produce. Therefore, ₹ 1,08,00,000, being 150% of ₹ 72 lakhs, would be allowable as deduction under section 35AD in the hands of Rise & Co. in the P.Y. 2014-15.

- (b) Since Mr. Xavier does not own more than 10 vehicles at any time during the previous year 2014-15, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 7,500 per month or part of month for which each goods carriage is owned by him would be deemed as his profits and gains from each goods carriage.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
1	10.4.2014	12	12
3	15.3.2015	1	3
2	16.7.2014	9	18
1	2.1.2015	3	3
1	29.8.2014	8	8

2	23.2.2015	2	4
10		Total	48

Therefore, presumptive income of Mr. Xavier under section 44AE for A.Y.2015-16 is ₹ 3,60,000, being $48 \times ₹ 7,500$.

7. **Computation of capital gains in the hands of Mr. Satvik for A.Y.2015-16**

Particulars	₹	₹
Actual Sale Consideration	95,00,000	
Valuation as per Stamp Valuation authority (Value to be taken is the higher of actual sale consideration or valuation adopted for stamp duty purpose as per section 50C)	97,00,000	
Deemed Sale Consideration for the purpose of Capital Gains		97,00,000
Less: Expenses on transfer (Brokerage @1% of ₹ 95,00,000)		<u>95,000</u>
Net Sale Consideration		96,05,000
Less: Indexed cost of acquisition (See Note 1)	22,01,600	
Indexed cost of improvement (See Note 2)	<u>9,21,600</u>	<u>31,23,200</u>
		64,81,800
Less: Exemption under section 54EC in respect of investment in NHAI Bonds (See Note 4)		<u>50,00,000</u>
Long-term Capital Gain		<u>14,81,800</u>

Notes:

(1) **Computation of indexed cost of acquisition**

Particulars	₹
Cost of acquisition, being the higher of -	2,65,000
(i) fair market value as on April 1, 1981 i.e. ₹ 2,60,000	
(ii) actual cost of acquisition i.e. ₹ 2,65,000 (₹ 2,40,000 + ₹ 25,000, being stamp duty @ 10% of ₹ 2,50,000)	
Less: Advance taken and forfeited (See Note 3)	<u>50,000</u>
Cost for the purpose of indexation	<u>2,15,000</u>
Indexed cost of acquisition (₹ 2,15,000 x 1024/100)	22,01,600

(2) **Computation of indexed cost of improvement**

Construction of first floor in March, 1988 (i.e., ₹ 1,35,000 x 1024/150)	₹ 9,21,600
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- (3) Clause (ix) has been inserted in section 56(2) to bring to tax advance received and forfeited on or after 01.04.2014, in respect of a transaction of sale of a capital asset which failed to materialise. Consequently, a proviso has been inserted in section 51 to provide that where any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset has been included in the total income of the assessee for any previous year, in accordance with section 56(2)(ix), such amount shall **not** be deducted from the cost for which the asset was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition.

Therefore, the advance of ₹ 7,50,000 received by Mr. Satvik on 25th August, 2014, which was forfeited due to the transaction not materializing, is taxable under section 56(2)(ix) as "Income from other sources" in the A.Y.2015-16. Hence, such amount would not be reduced to compute the indexed cost of acquisition while computing capital gains on sale of the property in October, 2014.

However, the advance of ₹ 50,000 received and forfeited before 01.04.2014 has to be deducted from cost of acquisition for determining indexed cost of acquisition, since the same was not subject to tax under section 56(2)(ix).

- (4) As per second proviso to section 54EC(1), out of capital gains arising from transfer of one or more capital assets in a financial year, the investment eligible for exemption, cannot exceed ₹ 50 lakhs, whether such investment is made in the same financial year or in the subsequent financial year or in both the years.

In this case, Mr. Satvik has invested ₹ 35 lakhs in NHAI bonds in the F.Y.2014-15 and ₹ 25 lakhs in RECL bonds in the F.Y.2015-16, both within six months from the date of transfer. However, out of the total investment of ₹ 60 lakhs in eligible bonds, he would be eligible for exemption of only ₹ 50 lakhs under section 54EC.

8. (a) Section 145A provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2015-16:

Particulars	₹
Interest on enhanced compensation taxable under section 56(2)(viii)	8,50,000
Less: Deduction under section 57(iv) (50% x ₹ 8,50,000)	<u>4,25,000</u>
Taxable interest on enhanced compensation	<u>4,25,000</u>

- (b) (i) Any property received without consideration by a HUF from its relative is not taxable under section 56(2)(vii).

Since Sharma's son is a member of Sharma HUF, he is a "relative" of the HUF. Therefore, if Sharma HUF receives any property (shares, in this case) from its member, i.e., Sharma's son, without consideration, then, the fair market value of such shares will **not** be chargeable to tax in the hands of the HUF, since gift received from a "relative" is excluded from the scope of section 56(2)(vii).

- (ii) The difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company under section 56(2)(viiia), if the difference exceeds ₹ 50,000.

Accordingly, in this case, the difference of ₹ 2,10,000 [i.e., (₹ 115 – ₹ 95) × 10,500] is taxable under section 56(2)(viiia) in the hands of Sunnyvale (P) Ltd.

- (iii) The provisions of section 56(2)(viib) are attracted in this case since the shares of a closely held company are issued at a premium (i.e., the issue price of ₹ 17 per share exceeds the face value of ₹ 10 per share) and the issue price exceeds the fair market value of such shares.

The consideration received by the company in excess of the fair market value of the shares would be taxable under section 56(2)(viib).

Therefore, ₹ 1,04,000 [i.e., (₹ 17 – ₹ 13) × 26,000 shares] shall be the income chargeable under section 56(2)(viib) in the hands of Balaji (P) Ltd.

9. Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. Chandrapal and Mrs. Chandrapal subsists.

However, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Further, the income of minor child suffering from disability of the nature specified under section 80U shall also not be included in the hands of parents.

Tax implications

- (i) Income of ₹ 2,50,000 from Mr. Chandrapal's profession shall be taxable in the hands of Mr. Chandrapal under the head "Profits and gains of business or profession".
- (ii) Salary of ₹ 1,06,000 received by Mrs. Chandrapal as a Primary teacher shall be taxable as "Salaries" in the hands of Mrs. Chandrapal.
- (iii) Income from fixed deposit of ₹ 12,000 arising to the minor son Arav, shall be clubbed in the hands of the father, Mr. Chandrapal as "Income from other sources", since Mr. Chandrapal's income is greater than the income of his wife before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".

Therefore, ₹ 10,500 would be clubbed in the hands of Mr. Chandrapal.

- (iv) Income of ₹ 2,20,000 arising to minor son Arav from lottery shall be included in the hands of Mr. Chandrapal as "Income from other sources", since Mr. Chandrapal's income is greater than the income of his wife before including the income of minor child.

Note – Mr. Chandrapal can reduce the tax deducted at source from such lottery income while computing his net tax liability.

- (v) Income of ₹ 1,05,000 arising to the minor daughter Pallavi from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- (vi) The clubbing provisions are attracted even in respect of income of minor married daughter. As per section 56(2)(vii), cash gifts received from any person/persons exceeding ₹ 50,000 during the year in aggregate is taxable. Since the cash gift in this case exceeds ₹ 50,000, the amount of ₹ 55,000 shall be taxable under section 56(2)(vii). This amount shall be clubbed in the hands of Mr. Chandrapal and exemption under section 10(32) of ₹ 1,500 per child shall be allowed in his hands.
- (vii) Income of minor son Arvind, who suffers from disability specified under section 80U, shall not be included in the hands of either of his parents.

10. Computation of Gross Total Income of Mr. Alok for A.Y. 2015-16

Particulars	₹	₹
Salaries	1,38,000	
Less: Current year loss from house property	<u>(66,000)</u>	72,000

Profit and gains of business or profession		
Income from textile business	73,000	
<i>Less:</i> Loss from textile business brought forward from A.Y. 2007-08	<u>82,000</u>	
Balance business loss of A.Y. 2007-08 (See Note 1)	<u>(9,000)</u>	NIL
Income from the activity of owning and maintaining race horses	21,000	
<i>Less:</i> Loss from activity of owning and maintaining race horses brought forward from A.Y. 2012-13	<u>37,000</u>	
Loss to be carried forward to A.Y. 2016-17 (See Note 2)	<u>(16,000)</u>	NIL
Capital Gain		
Short term capital gain		1,65,000
Long term capital gain on sale of land	27,000	
<i>Less:</i> Long term capital loss on sale of shares	<u>1,06,000</u>	
Loss to be carried forward to A.Y. 2016-17 (See Note 3)	<u>(79,000)</u>	<u>NIL</u>
Gross Total Income		<u>2,37,000</u>

Losses to be carried forward to A.Y. 2016-17

Particulars	₹
Current year loss from speculative business (See Note 4)	58,000
Current year long term capital loss on sale of shares (See Note 3)	79,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y.2012-13 (See Note 2)	16,000

Notes:

- (1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2007-08 expired with the A.Y. 2015-16, the balance unabsorbed business loss of ₹ 9,000 cannot be carried forward to A.Y. 2016-17.
- (2) As per section 74A(3), the loss incurred from the activity of owning and maintaining of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years. Therefore, the unabsorbed loss of ₹ 16,000 from the activity of owning and maintaining race horses pertaining to A.Y. 2012-13 can be carried forward upto A.Y. 2016-17.

- (3) Long term capital gains on sale of shares on which securities transaction tax is not paid is not exempt under section 10(38). Therefore, long-term capital loss on sale of such shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 79,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- (4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

11. Computation of eligible deduction under Chapter VI-A of Mr. Mayank for A.Y. 2015-16

Particulars	₹	₹
Deduction under Section 80C		
LIC premium paid ₹ 30,000 [Limited to 10% of policy value, since policy has been taken on or after 1.04.2012 (10% x ₹ 2,00,000)]	20,000	
Contribution to PPF.	1,10,000	
Repayment of housing loan to Indian Bank	<u>35,000</u>	
	1,65,000	
Deduction allowed under section 80C, restricted to	1,50,000	
Deduction under Section 80CCC		
Payment to LIC Pension Fund	<u>28,000</u>	
	1,78,000	
Deduction limited to ₹ 1,50,000 as per section 80CCE		1,50,000
Deduction under Section 80D		
Payment of medical insurance premium ₹ 22,000 for self, wife and dependent children. Deduction limited to ₹ 15,000.	15,000	
Medical insurance premium paid for non-dependant parents ₹ 32,000 (limited to ₹ 20,000, being the limit applicable for senior citizens)	<u>20,000</u>	35,000
Deduction under section 80CCG		
Mr. Mayank would be eligible for deduction under section 80CCG in respect of investment made in Equity Oriented Fund of Rajiv Gandhi Equity Savings Scheme, 2013, since his gross total income does not exceed ₹ 12,00,000 and he is a new retail investor. The allowable deduction would be	23,500	23,500

₹ 23,500, being 50% of ₹ 47,000, since the same is within the limit of ₹ 25,000.		
Deduction under section 80GGC		
Donation to National Congress party by crossed cheque	30,000	30,000
Eligible deduction under Chapter VI A		<u>2,38,500</u>

12. Computation of total income of Dr. Shivkumar for the A.Y. 2015-16

	Particulars	₹	₹	₹
I	Income from house property			
	Gross Annual Value		61,000	
	Less: Municipal taxes paid		<u>12,000</u>	
	Net Annual Value		49,000	
	Less: Deduction under section 24 @30%		<u>14,700</u>	34,300
II	Income from profession			
	Net profit as per Income and Expenditure account		3,39,500	
	Less: Items of income to be treated separately			
	(i) Income tax refund (including interest)	18,500		
	(ii) Dividend from Indian companies	38,000		
	(iii) Winning from lottery (net of TDS)	42,000		
	(iv) Rent received	<u>61,000</u>	<u>1,59,500</u>	
			1,80,000	
	Add: Expenditure debited but not allowable			
	(i) Rent for his residence	45,000		
	(ii) Municipal tax paid relating to residential house at Pune included in administrative expenses	<u>12,000</u>	<u>57,000</u>	
			2,37,000	
	Less: Expenditure allowable but not debited			
	Depreciation on Clinic equipments u/s 32			
	- on ₹ 5,50,000 @ 15%	82,500		
	- on ₹ 1,55,000 @ 7.5% (i.e., 50% of 15%)	<u>11,625</u>		
		94,125		
	Additional deduction of 100% in respect of amount paid to IIT [since weighted deduction of 200% is available in respect of such payment under section 35(2AA)]	<u>1,20,000</u>	<u>2,14,125</u>	22,875

III	Income from other sources			
	Interest on Income-tax refund		2,500	
	Dividend from Indian companies	38,000		
	Less: Exempt under section 10(34)	<u>38,000</u>	Nil	
	Winnings from lottery (See Note 1)		<u>60,000</u>	<u>62,500</u>
	Gross Total Income			1,19,675
	Less: Deductions under Chapter VI A:			
	- Under section 80C			
	Tuition fee paid to university for full time education of his son		65,000	
	- Under section 80E			
	Interest on loan taken for higher education of daughter		<u>60,000</u>	
	Deduction under Chapter VI-A, restricted to (See Note 2)		1,25,000	<u>59,675</u>
	Total income			<u>60,000</u>

Notes:

1. Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". The applicable rate of TDS is 30%. Gross income from lottery, would, therefore, be ₹ 42,000/70% = ₹ 60,000
2. Deduction under Chapter VI-A cannot exceed Gross Total Income. Further, no deduction is allowable from income by way of winning from lottery. Therefore, the maximum deduction allowable would be ₹ 59,675.

₹

Gross Total Income	1,19,675
Less: Winnings from lottery	<u>60,000</u>
Maximum deduction under Chapter VI-A	<u>59,675</u>

The total income of ₹ 60,000 would, therefore, represent winnings from lottery taxable at a flat rate of 30%, without any basic exemption limit.

3. Dr. Shivkumar is staying in rented premises in Pune itself. Hence, he would not be eligible for deduction under section 80GG, since he owns a house in Pune which he has let out.
 4. Rent received has been taken as Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.
13. (a) (i) Section 194A requiring deduction of tax at source on any income by way of interest, other than interest on securities, credited or paid to a resident,

excludes from its scope, income credited or paid by a firm to its resident partner. Therefore, no tax is required to be deducted at source under section 194A on interest on capital of ₹ 25,000 and ₹ 30,000 paid by the firm, M/s Duplicate, to its resident partners Mr. Vikul and Mr. Rahul.

- (ii) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year.

However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax is not attracted.

Therefore, in the given case, even if Taneja (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source under section 194J is not attracted in this case since, the fees for professional service paid to Dr. Kunal Garg is for personal purpose i.e. for the purposes of surgery on a member of the family.

- (iii) Since the annual premium exceeds 10% of sum assured in respect of a policy taken on 1.4.2012, the maturity proceeds of ₹ 5.50 lakhs are not exempt under section 10(10D) in the hands of Mr. Dheeraj, a resident individual. Therefore, tax is required to be deducted @2% under section 194DA on the maturity proceeds of ₹ 5.50 lakhs payable to Mr. Dheeraj.

- (b) (i) **False** : As per Explanation to section 139(9), the return of income shall be regarded as defective return unless the tax, together with interest, if any payable in accordance with the provisions of section 140A has been paid on or before the date of furnishing the return.

However, the defective return would be treated as invalid, only if the individual fails to rectify the defect within a period of 15 days from the date of intimation of the defect to him by the Assessing Officer or within such further period, as the Assessing Officer may allow, on an application made by such individual in this behalf.

- (ii) **False**: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

14. (i) **The said statement is not valid.** With effect from 11.07.2014, Mega Exemption Notification No. 25/2012 ST dated 20.06.2012, has been amended to provide that services provided, *inter alia*, to Government by way of water supply, public health, sanitation conservancy, solid waste management or slum improvement and up-gradation are exempt but the exemption is not extendable to other services such as consultancy, designing, etc., not directly connected with these specified services. Prior to 11.07.2014, services provided, *inter alia*, to Government by way of carrying

out **any activity in relation to** any function ordinarily entrusted to a municipality in relation to water supply, public health, sanitation conservancy, solid waste management or slum improvement and upgradation were exempt vide Mega Exemption Notification.

- (ii) **The said statement is valid.** With effect from 11.07.2014, Mega Exemption Notification No. 25/2012 ST dated 20.06.2012, has been amended to increase the abatement in respect of transport of goods in a vessel from 50% to 60%. Thus, transport of goods in a vessel would attract service tax at 40% of the value of taxable service
- (iii) **The said statement is not valid.** With effect from 11.07.2014, Mega Exemption Notification No. 25/2012 ST dated 20.06.2012, has been amended to provide that the condition for non- availment of credit is required to be satisfied by the service providers only. Thus, service receiver may avail abatement without having to establish the satisfaction of this condition by the service provider.
- (iv) **The said statement is not valid.** With effect from 11.07.2014, Mega Exemption Notification No. 25/2012 ST dated 20.06.2012, has been amended to provide that, transport of passengers, with or without accompanied belongings, by non-airconditioned contract carriage other than radio taxi, for transportation of passengers, excluding tourism, conducted tour, charter or hire, is exempt from service tax. Therefore, any service provided for transport of passengers by air-conditioned contract carriages like buses including the ones used for point to point travel, will attract service tax.
15. As per section 66D(g) of the Finance Act, 1994, selling of space for advertisements in print media is included in the negative list of services. In other words, advertisement in all media except print media is liable to service tax. Therefore, sale of space for advertisements on internet websites, sale of time for advertisement to be broadcast on TV Channel and advertising on film screen in theatres are liable to service tax.

Further, definition of print media specifically excludes business directories. Therefore, advertising in business directories attracts service tax.

Services related to preparation of advertisement are liable to service tax as they are not included in the negative list.

Computation of the value of taxable service and service tax payable

Services rendered	Amount (₹)	Service tax @ 12.36% (₹)
Sale of space for advertisement in a leading newspaper	55,000	Nil
Services related to preparation of advertisement	65,000	8,034

Sale of space for advertisements on internet websites	50,000	6,180
Sale of time for advertisement to be broadcast on TV Channel	1,00,000	12,360
Advertising in business directories	25,000	3,090
Advertising on film screen in theatres	90,000	11,124

16. Since Legal Metrology Act, 2009 requires declaration of retail sale price on the package of pressure cooker and pressure cookers are also notified under section 4A of Central Excise Act, 1944 (RSP based valuation provisions), excise duty will be payable on the basis of RSP less abatement.

Particulars	₹	₹
RSP of 10 pieces (10 × ₹4,500) (Note-1)	45,000	
Less: Abatement @ 25%	<u>11,250</u>	
Assessable value (A)		33,750
RSP of 15 pieces sold in Delhi (15 × ₹3,000) (Note-2)	45,000	
Less: Abatement @ 25%	<u>11,250</u>	
Assessable value (B)		33,750
RSP of 5 pieces sold in Haryana (5 × ₹ 2,800) (Note 2)	14,000	
Less: Abatement @ 25%	<u>3,500</u>	
Assessable value (C)		10,500
RSP of 20 pieces (20 × ₹ 4,100) (Note-3)	82,000	
Less: Abatement @ 25%	<u>20,500</u>	
Assessable value (D)		<u>61,500</u>
Total assessable value (A) +(B)+(C)+(D)		1,39,500
Excise duty @ 12% [12% of ₹ 1,39,500]		16,740
Education cess @ 2% [2% of ₹ 16,740]		335
Secondary and Higher Education Cess @ 1% [1% of ₹ 16,740]		<u>167</u>
Total excise duty payable (rounded off)		17,242

Notes:

1. Where more than one RSP is declared on the package of excisable goods, the maximum of such price will be deemed to be the RSP.
2. If different RSPs on different packages are declared for different areas, each such RSP is deemed to be the RSP.
3. If RSP on the package is increased after removal from factory, increased RSP would be deemed to be the RSP.

All goods on which RSP has been declared will not be covered under the provisions of section 4A. Only when the declaration of RSP on the goods is mandatory under the Legal Metrology Act, 2009 or under any other law and such goods have been notified by the Central Government for the purpose of section 4A, then the goods be valued under section 4A. Thus, provisions of section 4A of Central Excise Act, 1944 would not apply if the goods had not been notified by Central Government and manufacturer voluntarily affixed RSP on the products.

17. As per rule 3 of the CENVAT Credit Rules, 2004, a manufacturer of final product can take CENVAT credit of service tax paid on any input service received by it and used for the manufacture of final product. Thus, Mr. Govinda being a manufacturer of final product is eligible to avail CENVAT credit of service tax paid on input services received. However, rule 4(7) of the CENVAT Credit Rules, 2004 stipulates that the manufacturer or the provider of output service shall not take CENVAT credit after six months of the date of issue of invoice.

In view of the said provisions, Mr. Govinda can avail CENVAT credit with respect to Bill No. 705 and 803 and not with respect to Bill No. 701 as period of six months has expired from the date of issuance of invoice.

18. **Computation of CENVAT credit available with Tony Motors Ltd.**

Particulars	Amount [₹]
Sales promotion services [Note 1]	2,00,000
Market research for the new car launched by Tony Motors Ltd. [Note 1]	4,00,000
Quality control services [Note 1]	1,00,000
Routine maintenance of the cars manufactured by Tony Motors Ltd. [Note 2]	50,000
Insurance of the cars manufactured [Note 2]	60,000
Outdoor catering services provided to the employees [Note 3]	<u>Nil</u>
Total CENVAT credit available	<u>8,10,000</u>

Notes:

1. As per the definition of the input services, there is a specific inclusion with regard to the following services:-
- (a) Sales promotion services
 - (b) Market research services
 - (c) Quality control services

Hence, the CENVAT credit of the service tax paid on the aforesaid services is available.

2. Service of general insurance business and repair and maintenance, in so far as they relate to a motor vehicle which is not a capital goods, is excluded from the definition of the input service except when used by a manufacturer of a motor vehicle in respect of a motor vehicle manufactured by such person.

Thus, credit of the service tax paid on the insurance and maintenance of cars manufactured by Tony Motors Ltd. is available.

3. Outdoor catering services to the employees are specifically excluded from the definition of the input services. Hence, CENVAT credit of service tax paid on such services is not available.
19. In case of renting of motor cabs, abatement of 60% from gross amount charged is available if CENVAT credit on inputs, capital goods and input services other than input service of renting of motorcab is not availed. Therefore, since in the given case, Sai avails CENVAT credit on inputs and capital goods, it cannot pay service tax on abated value.

In case of taxable services provided by way of renting of a motor vehicle designed to carry passengers on non abated value to any person who is not engaged in the similar line of business by any individual/HUF/partnership firm (whether registered or not) including association of persons, located in the taxable territory to a business entity registered as body corporate, located in the taxable territory, both service provider and service receiver are liable to pay service tax. 50% of tax is to be paid by service provider and 50% by service receiver.

Since in the given case, service by way of renting of motor cabs is provided by an individual (Sai) to another individual (Shyam) and not to any body corporate, reverse charge provisions will not apply and entire service tax will be payable by service provider (Sai). Thus, service tax of ₹ 371 (12.36% of ₹ 3,000) is liable to be paid by Sai.

However, when motor cab is taken on rent by Elite Ltd. (a company), reverse charge provisions will apply and 50% of tax will be paid by Sai (service provider) and 50% by Elite Ltd. (service receiver). Thus, Sai will pay ₹ 185.5 and Elite Ltd. will pay ₹ 185.5.

20. Computation of value of taxable services rendered by Miss Sunidhi for the quarter ended 30th September, 2014

S. No.	Particulars	₹
1.	Preparation of accounts of various clients	4,00,000
2.	Fee received from United Nations Organization [Exempt from service tax vide mega exemption <i>Notification No. 25/2012 dated 20.06.2012</i>]	-
3.	Advance received from Lexicon Ltd. [Advance is taxable at the time of receipt of advance only vide Rule 3 of Point of Taxation Rules, 2011]	5,00,000

4.	Preparation of accounts of charitable trusts (2,00,000 x 100/112.36)	<u>1,77,999</u>
	Total value of taxable services	<u>10,77,999</u>

Note: Since fee received from UNO is exempt from service tax, there will be no treatment under service tax for the fees returned in the next quarter.

21. (i) **No, the statement is not valid.** The definition of sales clearly excludes a mortgage or hypothecation of or a charge or pledge on goods.
- (ii) **Yes, the statement is valid.** Central sales tax is leviable on sales of all goods, other than electrical energy, in course of inter-state trade/ commerce. As per the definition of sale under Central Sales Tax Act, 1956, sale of goods by any unincorporated association or body of persons to a member is deemed to be a sale. Hence, Central sales tax is leviable on the sale of goods by any unincorporated association or body of persons to a member.
- (iii) **Yes, the statement is valid.** Since penultimate sale for exports is deemed to be the sale in the course of exports, it would not be liable to central sales tax.
- (iv) **No, the statement is not valid.** As per Section 9(1) of the Central Sales Tax Act, 1956, central sales tax so levied is collected by State Government of the State from which the movement of the goods is commenced.

22. Computation of VAT liability of Tirupati:-

Particulars	₹	₹
Raw materials purchased from foreign market (including duty paid on imports @ 20%) [Customs duty forms part of cost of production, input tax credit of customs duty paid is not available]		1,20,000
Raw material purchased from local market:-		
Cost of raw material	2,50,000	
<i>Add:</i> Excise duty @ 12%	<u>30,000</u>	2,80,000
[Input tax credit of excise duty is not available]		
Raw material purchased from neighbouring State (including CST @ 2%) [Input tax credit of CST is not available]		51,000
Storage and transportation cost		10,000
Manufacturing expenses		<u>21,000</u>
Cost of production		4,82,000
<i>Add:</i> Profit @ 12% of cost of production		<u>57,840</u>
Sale Price		<u>5,39,840</u>

VAT @ 4% on ₹ 5,39,840		21,593.6
Net VAT liability of Tirupati:-		
VAT on sale price (rounded off)		21,594
Less: Input tax credit		
Duty paid on imports	Nil	
CST paid on inter-State purchases	Nil	
VAT paid on local purchases	<u>11,200</u>	<u>11,200</u>
Net VAT payable by Tirupati		<u>10,394</u>

23. In respect of any taxable services provided or agreed to be provided by a director of a body corporate to the said body corporate, person liable to pay service tax is the recipient of such service, i.e. service tax has to be paid under reverse charge mechanism. Hence, in the given case, service tax is to be paid by the body corporate.

Further, rule 7 of the Point of Taxation Rules, 2011 provides that the point of taxation in respect of services taxed under reverse charge will be the payment date or the first day that occurs immediately after a period of 3 months from the date of invoice, whichever is earlier.

In the light of the aforesaid provisions, point of taxation will be as follows:-

Case-I: Since the payment has been made within 3 months from the date of invoice, point of taxation shall be the date of payment i.e. 27.12.2014.

Case-II: Since the payment has not been made within a period of 3 months from the date of invoice, point of taxation will be the date immediately following the said period of 3 months i.e. 08.01.2015.

24. With effect from 11.07.2014, section 15 of the Customs Act, 1962 has been amended to provide that in case the goods have been imported in a vehicle, the rate of duty shall be the rate in force on:-
- (i) the date on which Bill of Entry is presented
- or
- (ii) the date on which arrival of vehicle takes place
- whichever is later.**

Therefore, the relevant date for determination of the rate of import duty, in the given case, is 20.10.2014. Hence, the rate of import duty applicable in the given case is 12%.

25. Rule 6 of Service Tax Rules, 1994 has been amended to provide that with effect from 01.10.2014, e-payment of service tax would be compulsory for all assesses irrespective of the quantum of service tax paid in the previous financial year. Hence Mr. X will be required to deposit service tax for the quarter ended December, 2014 electronically. The due date for payment of service tax for the quarter ended December, 2014 is 6th January, 2015.