

PAPER – 4: TAXATION

PART – I: STATUTORY UPDATE

Significant Notifications and Circulars in income-tax and indirect taxes issued between 1st May, 2015 and 31st October, 2015

A. INCOME TAX

I. NOTIFICATIONS

1. Notification of Cost Inflation Index for Financial Year 2015-16 [Notification No. 60/2015, dated 24.7.2015]

Clause (v) of Explanation to section 48 defines "Cost Inflation Index", in relation to a previous year, to mean such Index as the Central Government may, by notification in the Official Gazette, specify in this behalf, having regard to 75% of average rise in the Consumer Price Index (Urban) for the immediately preceding previous year to such previous year.

Accordingly, the Central Government has, in exercise of the powers conferred by clause (v) of Explanation to section 48, specified the Cost Inflation Index for the **financial year 2015-16 as 1081**.

S. No.	Financial Year	Cost Inflation Index	S. No.	Financial Year	Cost Inflation Index
1.	1981-82	100	19.	1999-2000	389
2.	1982-83	109	20.	2000-01	406
3.	1983-84	116	21.	2001-02	426
4.	1984-85	125	22.	2002-03	447
5.	1985-86	133	23.	2003-04	463
6.	1986-87	140	24.	2004-05	480
7.	1987-88	150	25.	2005-06	497
8.	1988-89	161	26.	2006-07	519
9.	1989-90	172	27.	2007-08	551
10.	1990-91	182	28.	2008-09	582
11.	1991-92	199	29.	2009-10	632
12.	1992-93	223	30.	2010-11	711
13.	1993-94	244	31.	2011-12	785
14.	1994-95	259	32.	2012-13	852
15.	1995-96	281	33.	2013-14	939
16.	1996-97	305	34.	2014-15	1024
17.	1997-98	331	35.	2015-16	1081
18.	1998-99	351			

2. **Basis for determining the period of stay in India for an Indian citizen, being a member of the crew of a foreign bound ship leaving India [Notification No. 70/2015, dated 17.8.2015]**

Section 6(1) of the Income-tax Act, 1961 provides that an individual is said to be resident in India in any previous year, if he—

- (a) is in India in that year for a period or periods amounting in all to 182 days or more; or
- (c) having within the four years preceding that year been in India for a period or periods amounting in all to 365 days or more, is in India for a period or periods amounting in all to 60 days or more in that year.

However, where an Indian citizen leaves India as a member of crew of an Indian ship or for the purpose of employment outside India, he will be resident only if he stayed in India for 182 days during the previous year.

Thus, under section 6(1), the conditions to be satisfied by an individual to be a resident in India are provided. The residential status is determined on the basis of the **number of days of his stay in India** during a previous year.

However, in case of foreign bound ships where the destination of the voyage is outside India, there is uncertainty regarding the manner and the basis of determining the period of stay in India for an Indian citizen, being a crew member.

To remove this uncertainty, **Explanation 2 has been inserted to section 6(1)** to provide that in the case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the **period or periods of stay in India** shall, in respect of such voyage, be determined in the **prescribed manner** and subject to the prescribed conditions.

Accordingly, the CBDT has, in exercise of the powers conferred by Explanation 2 to section 6(1) read with section 295, vide this notification, with retrospective effect from 1st April, 2015, inserted Rule 126 in the Income-tax Rules, 1962, to compute the period of stay in such cases.

According to Rule 126, in case of an individual, being a citizen of India and a member of the crew of a ship, the **period or periods of stay in India** shall, in respect of an eligible voyage, **not include** the period **commencing from the date** entered into the Continuous Discharge Certificate in respect of **joining the ship** by the said individual for the eligible voyage and **ending on the date** entered into the Continuous Discharge Certificate in respect of **signing off by that individual from the ship** in respect of such voyage.

The Explanation to this Rule defines the meaning of the following terms:

Terms	Meaning
Continuous Discharge Certificate	This term has the meaning assigned to it in the Merchant Shipping (Continuous Discharge Certificate-cum-Seafarer's Identity Document) Rules, 2001 made under the Merchant Shipping Act, 1958.

Eligible voyage	A voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where- (i) for the voyage having originated from any port in India, has as its destination any port outside India; and (ii) for the voyage having originated from any port outside India, has as its destination any port in India.
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3. Certain districts of Bihar notified as backward areas under the first proviso to section 32(1)(iia) and section 32AD(1) [Notification No. 71/2015, dated 17.8.2015]

In order to encourage the setting up of industrial undertakings in the backward areas of the States of Andhra Pradesh, Bihar, Telangana and West Bengal, section 32AD(1) provides for a deduction of an amount equal to 15% of the actual cost of new plant and machinery acquired and installed in the assessment year relevant to the previous year in which such plant and machinery is installed, if the following conditions are satisfied by the assessee—

- (a) the assessee sets up an undertaking or enterprise for manufacture or production of any article or thing on or after 1st April, 2015 in any backward area notified by the Central Government in the State of Andhra Pradesh or Bihar or Telangana or West Bengal; and
- (b) the assessee acquires and installs new plant and machinery for the purposes of the said undertaking or enterprise during the period between 1st April, 2015 and 31st March, 2020 in the said backward areas.

Further, in order to encourage acquisition and installation of plant and machinery for setting up of manufacturing units in the notified backward areas of the States of Andhra Pradesh, Bihar, Telangana and West Bengal, first proviso has been inserted to section 32(1)(iia) to allow higher additional depreciation at the rate of 35% (instead of 20%) in respect of the actual cost of new machinery or plant (other than a ship and aircraft) acquired and installed during the period between 1st April, 2015 and 31st March, 2020 by a manufacturing undertaking or enterprise which is set up in the notified backward areas of these specified States on or after 1st April, 2015.

Accordingly, the Central Government has, vide this notification, notified the following **21 districts of the State of Bihar** as backward areas under the first proviso to section 32(1)(iia) and section 32AD(1).

S. No.	District	S. No.	District
1.	Patna	12.	Samastipur
2.	Nalanda	13.	Darbhanga
3.	Bhojpur	14.	Madhubani
4.	Rohtas	15.	Purnea

5.	Kaimur	16.	Katihar
6.	Gaya	17.	Araria
7.	Jehanabad	18.	Jamui
8.	Aurangabad	19.	Lakhisarai
9.	Nawada	20.	Supaul
10.	Vaishali	21.	M uzaffarpur
11.	Sheohar		

4. News agency notified for the purpose of section 10(22B) [Notification No. 72/2015, dated 24.8.2015]

Section 10(22B) provides that any income of a news agency set up in India solely for collection and distribution of news as the Central Government may notify shall be exempt, subject to the condition that such news agency applies its income or accumulates it for application solely for collection and distribution of news and does not distribute its income in any manner to its members.

Accordingly, the Central Government has, through this notification, specified the **Press Trust of India Limited, New Delhi** as a news agency set up in India solely for collection and distribution of news, for the purpose of section 10(22B) for three assessment years 2016-17 to 2018-19. The income of such news agency will not be included in computing the total income of a previous year of such agency, for three years, provided it applies its income or accumulates it for application solely for collection and distribution of news and does not distribute its income in any manner to its members.

5. Exemption in respect of transport allowance under Rule 2BB extended to deaf and dumb employees [Notification No. 75/2015, dated 23.09.2015]

The CBDT has, in exercise of the powers conferred by section 295 read with section 10(14), amended Rule 2BB which, *inter alia*, provides the limit of exemption of up to ₹ 1,600 p.m., in respect of transport allowance granted to an employee and up to ₹ 3,200 p.m., for an employee who is blind or orthopedically handicapped, with disability of lower extremities, to meet his expenditure incurred thereof, for the purpose of commuting between the place of his residence and the place of his duty.

Consequent to the amendment made vide this notification, the exemption up to ₹ 3,200 p.m. in respect of transport allowance can be claimed by a blind **or deaf and dumb** or orthopedically handicapped employee with disability of lower extremities to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty.

II. CIRCULARS

1. Tax not to be deducted from payments made to Corporations whose income is exempt under section 10(26BBB) [Circular No. 7/2015, dated 23-04-2015]

The CBDT had earlier issued Circular No. 4/2002 dated 16.07.2002 which laid down that there would be no requirement for tax deduction at source from payments made to such entities, whose income is unconditionally exempt under section 10 and who are statutorily not required to file return of income as per the section 139.

Section 10(26BBB), inserted by the Finance Act, 2003 w.e.f. 01.04.2004, exempts any income of a corporation established by a Central, State or Provincial Act for the welfare and economic upliftment of ex-service-men being the citizen of India. The corporations covered under section 10(26BBB) are also statutorily not required to file return of income as per the section 139.

Now, the CBDT has, vide this circular, clarified that since corporations covered under section 10(26BBB) satisfy the two conditions of Circular No. 4/2002 i.e., unconditional exemption of income under section 10 and no statutory liability to file return of income under section 139, they would also be entitled for the benefit of the said circular.

Hence, there would be no requirement for tax deduction at source from the payments made to such corporations since their income is anyway exempt under section 10.

2. Deduction in respect of cost of production allowable under section 37 in the case of Abandoned Feature Films [Circular No. 16/2015, dated 6.10.2015]

The deduction in respect of the cost of production of a feature film certified for release by the Board of Film Censors in a previous year is provided in Rule 9A.

In the case of abandoned films, however, since certificate of Board of Film Censors is not received, in some cases no deduction was allowed by applying Rule 9A of the Rules or by treating the expenditure as capital expenditure.

The CBDT has examined the matter in light of judicial decisions on this subject. The order of the Hon'ble Bombay High Court dated 28.1.2015 in ITA 310 of 2013 in the case of *Venus Records and Tapes Pvt. Ltd.* on this issue has been accepted and the aforesaid disputed issue has not been further contested.

Consequently, it is clarified that Rule 9A does not apply to abandoned feature films and that the expenditure incurred on such abandoned feature films is not to be treated as a capital expenditure. **The cost of production of an abandoned feature film is to be treated as revenue expenditure and allowed as per the provisions of section 37 of the Income-tax Act, 1961.**

B. INDIRECT TAXES

Chapter-5: Exemptions and Abatements**1. Services provided under the Power System Development Fund Scheme of the Ministry of Power exempted from service tax**

Exemption from service tax has been granted to taxable services provided under the Power System Development Fund Scheme of the Ministry of Power by way of-

- (A) re-gasification of Liquefied Natural Gas (LNG) imported by the Gas Authority of India Limited (GAIL);
- (B) transportation of the incremental Re-gasified Liquefied Natural Gas (RLNG) (e-bid RLNG) to specified power generating companies or plants

subject to fulfillment of certain conditions prescribed in the exemption notification.

However, the exemption shall not be available if such RLNG and LNG are used for generation of electrical energy by captive generating plant as defined in section 2(8) of the Electricity Act, 2003.

Further, the exemption shall be valid only till 31.03.2017.

[Notification No. 17/2015 ST dated 19.05.2015]

2. Yoga included in the definition of charitable activities

Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012* exempts services by an entity registered under section 12AA of the Income-tax Act, 1961 by way of charitable activities.

Activities relating to advancement of religion or spirituality are included in the definition of charitable activities. Now yoga has also been included therein. Thus, services relating to advancement of yoga provided by charitable entities registered under section 12AA of the Income-tax Act, 1961 will not be liable to service tax e.g., service tax will not be payable on fee charged for yoga camps conducted by charitable trusts.

[Notification No. 20/2015 ST dated 21.10.2015]

3. Services provided by (i) business facilitator/business correspondent with respect to Basic Savings Bank Deposit Accounts covered by Pradhan Mantri Jan Dhan Yojana and (ii) an intermediary to business facilitator/business correspondent with respect to such services, exempt from service tax

With a view to promote financial inclusion, Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012* has been amended to exempt the services provided by a business facilitator or a business correspondent to a banking company with respect to Basic Savings Bank Deposit Accounts covered by Pradhan Mantri Jan Dhan Yojana (PMJDY) by way of account opening, cash deposits, cash withdrawals, obtaining e-life certificates

and Aadhar seeding, in the rural area branches of banking companies, from service tax. Further, the services provided by any person as an intermediary to a business facilitator or a business correspondent with respect to the above mentioned services, have also been exempted from service tax.

For this purpose, Basic Savings Bank Deposit Account has been defined to mean a Basic Savings Bank Deposit Account opened under the guidelines issued by Reserve Bank of India relating thereto.

[Notification No. 20/2015 ST dated 21.10.2015]

4. 70% abatement available on ancillary services provided by a GTA in the course of transportation of goods

It has been clarified that ancillary services such as loading/ unloading, packing/unpacking, transshipment, temporary storage etc., would form part of the goods transport agency's (GTA) service if such services are provided by a GTA in the course of transportation of goods and the charges for such services are included in the invoice issued by the GTA, and not by any other person. Thus, abatement of 70%, applicable to GTA service, would also be available to the ancillary services. In other words, a single composite service need not be broken into its components and need not be considered as constituting separate services, if it is provided as such in the ordinary course of business. Thus, a composite service should be treated as a single service based on the main or principal service.

It has also been clarified that in cases where GTA undertakes to deliver goods at a destination within a stipulated time, it should be considered as services of GTA in relation to transportation of goods. Thus abatement of 70% will be applicable if the entire transportation of goods is by road and the GTA issues a consignment note, by whatever name called.

[Circular No. 186/5/2015 ST dated 05.10.2015]

Chapter 7: CENVAT Credit

5. No refund of CENVAT credit under rule 5B to service providers providing manpower supply/ security services

Rule 5B of the CENVAT Credit Rules, 2004 provides that service providers, rendering notified reverse charge services, being unable to utilise the CENVAT credit availed on inputs and input services for payment of service tax on such output services, shall be allowed refund of such unutilised CENVAT credit.

In this regard, earlier following partial reverse charge services were notified:

- (i) renting of a motor vehicle designed to carry passengers on non-abated value, to any person who is not engaged in a similar business;
- (ii) supply of manpower for any purpose or security services; or

(iii) service portion in the execution of a works contract

Since with effect from 01.04.2015, service tax with respect to supply of manpower for any purpose or security services is payable on the basis full reverse charge, service providers of said services will no longer be eligible for refund of CENVAT credit availed on inputs and input services for payment of service tax on such output services. Further, application in Form A for claiming refund has also been suitably modified.

The aforesaid amendment is effective from April 01, 2015.

[Notification No. 15/2015 CE (NT) dated 19.05.2015]

6. Reversal of credit under rule 6 not required in case of ethanol produced from molasses generated from cane crushed in the sugar season 2015-16 [Clause (ix) inserted to rule 6(6) of the CENVAT Credit Rules, 2004]

The provisions of sub-rules (1), (2), (3) and (4) of rule 6 would not apply to ethanol produced from molasses generated from cane crushed in the sugar season 2015-16 i.e. 1st October, 2015 onwards, for supply to the public sector oil marketing companies, namely, Indian Oil Corporation Ltd., Hindustan Petroleum Corporation Ltd. or Bharat Petroleum Corporation Ltd., for the purposes of blending with petrol, under *Notification No.12/2012 CE dated 17.03.2012*.

In case of such removal, though ethanol is removed without payment of duty, CENVAT credit on inputs/capital goods/input services used in the manufacture of ethanol can be availed. Further, where common inputs/input services are used to manufacture ethanol and other dutiable final product, reversal of credit or payment of amount on removal of ethanol will not be required.

[Notification No. 21/2015 CE (NT) dated 07.10.2015]

7. Output service providers allowed to utilize credit of education cess (EC) and secondary and higher education cess (SHEC) for payment of service tax on any output service [Sixth, seventh and eighth provisos inserted to rule 3(7)(b) of the CENVAT Credit Rules, 2004]

Prior to 01.03.2015, education cess (EC) and secondary and higher education cess (SHEC) paid on excisable goods could be availed as CENVAT credit. Further, EC and SHEC paid on taxable services could also be availed as CENVAT credit till 31.05.2015. Credit of EC on excisable goods or taxable services could not be utilised for payment of any other duty except EC payable on excisable goods or taxable services. Similarly, credit of SHEC on excisable goods or taxable services could not be utilised for payment of any other duty except SHEC payable on excisable goods or taxable services.

However, pursuant to EC and SHEC leviable on all taxable services ceasing to have effect (with effect from 01.06.2015), an output service provider has been allowed to utilise the following credits of EC and SHEC for the payment of service tax on any output service:

- (i) credit of EC and SHEC paid on inputs/ capital goods received in the premises of the output service provider on or after 01.06.2015;
- (ii) credit of balance 50% EC and SHEC paid on capital goods received in the premises of the output service provider in the financial year 2014-15; and
- (iii) credit of EC and SHEC paid on input service in respect of which the invoice, bill, challan or Service Tax Certificate for Transportation of Goods by Rail (referred to in rule 9), as the case may be, is received by the output service provider on/ after 01.06.2015.

[Notification No. 22/2015 CE (NT) dated 29.10.2015]

8. Amount payable under rule 6(3)(i) of CENVAT Credit Rules, 2004 enhanced from 6% to 7% of the value of exempted services

Earlier, in case an output service provider provides output service chargeable to tax as well as exempted services, he had an option to avail CENVAT credit in respect of any inputs/ input services without maintaining separate accounts provided he has paid an amount equal to 6% of the value of exempted services [Rule 6(3)(i) of the CENVAT Credit Rules, 2004].

With effect from 01.06.2015, pursuant to increase in the rate of service tax from 12% to 14%, aforesaid rate has been enhanced from 6% to 7%. Further, if any part of the value of a taxable service has been exempted on the condition that no CENVAT credit of inputs and input services, used for providing such taxable service, shall be taken, amount specified in rule 6(3)(i) has also been enhanced to 7% of the value so exempted.

[Notification No. 14/2015 CE (NT) dated 19.05.2015]

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Residential Status and Scope of total income

1. State with reasons whether the following transactions attract income-tax in India in the hands of recipients for A.Y.2016-17:
 - (i) Post office savings bank interest of ₹ 15,000 received by a resident assessee, Mr. Pankaj.
 - (ii) Legal charges of ₹ 5,00,000 paid in Madras to a lawyer of Canada who visited India to represent a case at the Madras High Court.
 - (iii) Royalty paid by Mr. Harish, a resident, to Mr. Rajesh, a non-resident, in respect of a business carried on in France.

- (iv) Salary paid by Central Government to Mr. Avi, a citizen of India ₹ 11,00,000 for the services rendered in USA.

Income which do not form part of total income

2. Mr. X, a sole proprietor, has one unit at Special Economic Zone (SEZ) and another unit at Domestic Tariff Area (DTA). The following are the details of the sole proprietorship for the previous year 2015-16.

Particulars	Mr. X (₹)	Unit in DTA (₹)
Total Sales	9,00,00,000	3,00,00,000
Export Sales	4,80,00,000	2,20,00,000
Net Profit	1,20,00,000	30,00,000

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2016-17, in the following situations:

- (i) If both the units were set up and start manufacturing from 18-08-2009.
(ii) If both the units were set up and start manufacturing from 23-09-2013.

Income from Salaries

3. Mr. Shyam is a Finance Executive at Xerox Ltd. From the following particulars, compute his total income for the Assessment Year 2016-17:

Basic salary	₹ 30,000 per month
Dearness allowance	30% of basic salary
Transport allowance (for commuting between place of residence and office)	₹ 1,800 per month
Motor car running and maintenance charges fully paid by employer (The motor car is owned and driven by employee Shyam. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee)	₹ 40,000
Expenditure on accommodation in hotels while touring on official duties met by the employer.	₹ 30,000
Lunch provided by the employer during office hours. Cost to the employer	₹ 12,000
Computer (cost ₹ 50,000) kept by the employer in the residence of Shyam from 1.10.2015	
Interest on saving bank account	₹ 12,000
Shyam made the following payments: Tuition fees for 2 children studying post-graduation courses at Madras University	₹ 1,60,000

Medical insurance premium : Paid by cash	₹ 5,000
Paid by cheque	₹ 22,000
Expenditure on preventive health checkup (incurred in cash)	₹ 7,000

Income from house property

4. Garima has two flats in Chennai, both of which are self-occupied. The particulars of these are given below:

Particulars	(Value in ₹)	
	Flat at Adyar	Flat at Mylapore
Municipal Valuation per annum	1,20,000	1,15,000
Fair Rent per annum	1,40,000	1,60,000
Standard rent per annum	1,20,000	1,70,000
Date of completion of construction	1-01-2009	21-05-2003
Municipal taxes payable during the year (paid for Flat at Mylapore only)	10%	12%
Interest on money borrowed for repair of property during current year	-	52,000

Compute Garima's income from house property for the Assessment Year 2016-17. Also, suggest which flat should be opted by Garima to be assessed as self-occupied so that her tax liability is minimum.

Profits and gains of business or profession

5. Discuss, on the basis of the provisions of Income-tax Act, 1961 as amended by the Finance Act, 2015, the correctness or otherwise of the following statements:
- Where new plant and machinery acquired during the P.Y. 2015-16 is put to use for less than 180 days in that year, additional depreciation allowable under section 32(1)(iia) for A.Y.2016-17 is restricted to 10% (i.e., 50% of 20%). The balance additional depreciation cannot be claimed in future.
 - A manufacturing company set up in Vaishali, a notified backward area in the State of Bihar, acquires and installs new plant and machinery for ₹ 30 crores in the P.Y. 2015-16. For A.Y.2016-17, it is entitled to deduction either under section 32AC or section 32AD, but not both.
 - Interest paid in respect of capital borrowed for acquisition of an asset, for the period upto the date on which the asset is first put to use must not be capitalized, if the acquisition of the asset is not for extension of existing business or profession.

Capital Gains & Income from Other Sources

6. Mr. Sitesh sold a house to his friend Mr. Gautam on 21st December, 2015 for a consideration of ₹ 30,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty had to be paid on ₹ 52,00,000, which was the Government guideline value. Mr. Sitesh preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as ₹ 35,00,000 (₹ 25,00,000 for land and the balance for building portion). The differential stamp duty was paid, accepting the said value determined. What are the tax implications in the hands of Mr. Sitesh and Mr. Gautam for the assessment year 2016-17? Mr. Sitesh had purchased the land on 21st March, 2011 for ₹ 6,19,000 and completed the construction of house on 2nd January, 2014 for ₹ 12,50,000.

Cost inflation indices may be taken as 711 for the financial year 2010-11, 939 for the financial year 2013-14 and 1081 for the financial year 2015-16.

Income of Other Persons included in assessee's Total Income

7. Mr. Chauhan commenced a proprietary business on 01.04.2014 with a capital of ₹ 10,00,000. He incurred a loss of ₹ 4,00,000 during the year 2014-15. To help her husband tide over the loss, his wife Mrs. Aparna, a Chartered Accountant, gave a gift of ₹ 4,00,000 on 01.04.2015, which was immediately invested in the business by Mr. Chauhan. He earned a profit of ₹ 5,00,000 during the year 2015-16. What is the amount to be clubbed in the hands of Mrs. Aparna for the Assessment Year 2016-17. Would your answer be different, if Mrs. Aparna gave the said amount as loan?

Set off and Carry Forward of Losses

8. Mr. Jain, a resident individual, furnishes the following particulars of his income and other details for the previous year 2015-16.

		₹
(1)	Income from Salary	70,000
(2)	Loss from house property (Computed)	25,000
(3)	Business loss	40,000
(4)	Long term capital gain on sale of land	82,700
(5)	Loss on maintenance of race horses	21,000
(6)	Loss from gambling	12,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2015-16 are as follows:

		₹
(1)	Unabsorbed depreciation	20,000

(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,700

Compute the Gross total income of Mr. Jain for the Assessment Year 2016-17 and the amount of loss, if any, that can be carried forward or not.

Deductions from Gross Total Income

9. Mr. Hariharan, working with Gamma Ltd., submits the following particulars of investments and payments made by during the previous year 2015-16:
- Deposit of ₹ 1,60,000 in public provident fund
 - Payment of life insurance premium of ₹ 25,000 on the policy taken on 31.3.2012 to insure his life (Sum assured – ₹ 1,00,000).
 - Deposit of ₹ 50,000 in a five year term deposit with bank.
 - Contributed ₹ 2,10,000, being 15% of his salary, to the NPS of the Central Government. A matching contribution was made by Gamma Ltd.
 - Paid mediclaim premium of ₹ 22,000 to insure his health and ₹ 26,000 to insure the health of his father, aged 65 years, not dependent on him.
 - He spent ₹ 5,000 for the preventive health-check up of his wife and ₹ 5,000 for the preventive check up of his father.
 - He has incurred an expenditure of ₹ 50,000 for the medical treatment of his mother, being a person with severe disability.
- (i) Compute the deduction available to Mr. Hariharan under Chapter VI-A for A.Y.2016-17.
- (ii) Would your answer be different, if Mr. Hariharan contributed ₹ 1,40,000 (being, 10% of his salary) towards NPS of the Central Government ?

Computation of total income and tax liability of an individual

10. Dr. Ashish Puri is running a clinic. His Income and Expenditure account for the year ending 31st March, 2016 is given below:

Expenditure	₹	Income	₹
To Staff Salary	4,30,000	By Fees Receipts	12,63,600
To Consumables	10,750	By Dividend from Indian Companies	15,000
To Medicine consumed	3,69,800	By Winning from Lotteries (Net of TDS of ₹ 12,000)	28,000
To Depreciation	91,000	By Income-tax refund	2,750

To Administrative Expenses	1,51,000		
To Donation to Prime Minister's National Relief Fund	5,000		
To Excess of Income over expenditure	<u>2,51,800</u>		
Total	<u>13,09,350</u>	Total	<u>13,09,350</u>

- (i) Depreciation in respect of all assets has been ascertained at ₹ 50,000 as per Income-tax Rules, 1962.
- (ii) Medicines consumed include medicine of (cost) ₹ 25,000 used for his family.
- (iii) Fees Receipts include ₹ 20,000 honorarium for valuing medical examination answer books.
- (iv) He has also received ₹ 2,75,000 on account of Agricultural Income which had not been included in the above Income and Expenditure Account.
- (v) He has also received ₹ 62,000 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.
- (vi) He received ₹ 8,000 per month as salary from a City Care Centre. This has not been included in the 'Fees Receipts' credited to Income and Expenditure Account.
- (vii) He has sold land in August, 2015 for ₹ 12,00,000 (valuation as per stamp valuation authority ₹ 14,00,000). The land was acquired by him in May, 1999 for ₹ 4,00,000.
- (viii) He has paid premium of ₹ 45,000 for another LIC Policy on his life which was taken on 1.04.2013 (sum assured ₹ 5,00,000).
- (ix) He has paid ₹ 4,000 for purchase of lottery tickets, which has not been debited to Income and Expenditure account.
- (x) Donation to Prime Minister National Relief Fund has been made by way of an crossed cheque.
- (xi) He deposited ₹ 1,50,000 in PPF.

From the above, compute the income and tax payable of Dr. Ashish Puri for the A.Y. 2016-17.

Cost Inflation Index: F.Y. 1999-00 – 389; F.Y. 2015-16 – 1081.

Provisions concerning Advance Tax and Tax Deducted at Source

11. Examine the implications of tax deduction at source under section 194A in the cases mentioned hereunder, based on the provisions of the Income-tax Act, 1961, as amended by the Finance Act, 2015 –

- (i) On 1.10.2015, Mr. Mohit made a six-month fixed deposit of ₹ 12 lakh @ 8% p.a. with Theta Co-operative Bank. The fixed deposit matures on 31.3.2016.

- (ii) Mr. Harish made fixed deposits carrying interest @10% p.a. with the following branches of Omega Bank, a bank which has adopted CBS.

Branch	Amount (₹)	Date of deposit	Date of Maturity
Adyar	60,000	01.06.2015	31.03.2016
Anna Nagar	80,000	01.07.2015	31.03.2016
Nungambakkam	75,000	01.08.2015	31.03.2016

- (iii) On 1.4.2015, Ms. Meena started a 1 year recurring deposit of ₹ 20,000 per month @ 10% p.a. with Gamma Bank. The recurring deposit matures on 31.3.2016.

Provisions for Filing of Return of Income

12. Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:
- Belated return filed under section 139(4).
 - Return already revised once under section 139(5).
 - Return of loss filed under section 139(3).

Computation of assessable value and excise duty payable thereon

13. Super Lasting Ltd. sold a machine, manufactured by it, to Goel Steel Ltd. (GSL) at a price of ₹ 10,00,000 (excluding taxes and duties). Further, following additional amounts were also charged from GSL:

Particulars	(₹)
Outward handling charges (from factory to GSL's premises)	5,000
Protective packing charges	12,500
Expenses pertaining to installation and erection of the machine at premises of GSL (machine was permanently affixed to earth)	26,000
Testing and inspection charges (testing done by Super Lasting Ltd.)	40,000
Delayed payment charges	3,000
Dharmada (charged in the invoice and recovered from GSL)	10,000

Determine the assessable value and total amount of central excise duty payable on the machine from the aforesaid information assuming that the machinery has been sold at the factory gate.

Computation of customs duty

14. ABC Ltd. has imported a machinery to be used for providing a taxable service. The assessable value of imported machinery under customs laws is ₹ 2,00,000. Basic customs duty is payable @ 10%. If the machinery is manufactured in India, excise duty @ 12.5% is leviable on such machinery. Education cess and secondary and higher education cess of customs are as applicable. Special CVD is payable on said machinery @ 4%. You are required to:-
- (i) calculate the total customs duty payable.
 - (ii) examine whether ABC Ltd. can avail any CENVAT credit of the custom duties so paid? If yes, how much?

Inter-State sales under CST

15. Examine whether the following amount to inter-State sales under CST:-
- (i) X of Chennai sends goods by air to his branch office at London. Subsequently, he transfers the documents of title of such goods to a buyer in Scotland after said goods have crossed the customs frontiers of India.
 - (ii) M of Mumbai comes to Delhi, purchases certain chemicals from N and transports them in his own name to Mumbai.
 - (iii) A London based entrepreneur enters into a contract of sale of goods with Pawan of Gujarat and sends the goods to India.

VAT liability

16. Mr. Naveen is a registered dealer of goods in Bihar. He sells his products to dealers in his State and in other States. Following additional information is provided by Mr. Naveen:
- (i) Raw material purchased in Bihar worth ₹ 80,000 (excluding VAT @ 12.5%)
 - (ii) High seas purchases of raw materials are ₹ 1,85,000 (excluding custom duty @ 10%).
 - (iii) Purchases of raw materials from West Bengal (excluding CST @ 2%) worth ₹ 50,000
 - (iv) Transportation charges, wages and other manufacturing expenses are ₹ 3,50,000
 - (v) Interest paid on bank loan is ₹ 55,000. Loan is taken to acquire a land for building a factory.

Mr. Naveen has sold all the manufactured goods after adding a profit margin of 10% of cost of production. VAT rate on sales is 12.5%. You are required to compute net VAT liability and total sales value (invoice value). There is no opening or closing inventory of both raw materials and manufactured goods.

Basic concepts of service tax

17. With reference to the provisions of service tax law as amended by the Finance Act, 2015, briefly examine the service tax implications in the following independent cases:-
- (a) AB Pvt. Ltd. manufactures alcoholic liquor for human consumption on job-work basis.
- (b) Splash and Splutter is a water park. It charges ₹ 500 per person as entry fee.

Point of taxation

18. Softec Industries Ltd. (SIL) is an Indian Company. It has received management consultancy services from a UK based company-Mitchell Ltd. on 15.07.2015. Assuming that Mitchell Ltd. and SIL are associated enterprises, determine the point of taxation using following details:

Particulars	Date
Mitchell Ltd. raised on SIL an invoice of £ 58,000	27.07.2015
SIL debited its books of accounts	05.08.2015
Date of payment by SIL	24.09.2015

Valuation of taxable service

19. BIE Academy, registered as a company, is engaged in providing online coaching classes to students of Class XI and XII. During the year ended 31.03.2015, it paid a sum of ₹ 15.6 lakh as service tax, out of which ₹ 7,00,000 was paid by utilizing the CENVAT credit and balance was paid in cash on the respective due dates. The details pertaining to the month of July, 2015 are as under:

Particulars	₹
Free online access for coaching provided to a batch of 100 students (Value of similar services is ₹ 52,000)	
Advance fees collected from students for online coaching sessions to be held in August, 2015	12,00,000
Advance received on 31.07.2015 from ABC School for conducting online classes specially designed for their students, in November, 2015. However, due to some internal disagreement, ABC School cancelled the agreement on 12.08.2015. The advance received was forfeited by BIE Academy.	5,92,000

Determine the service tax liability of BIE Academy for the month of July, 2015.

Note: Wherever applicable, service tax has not been charged separately.

Exemptions under service tax

20. Examine the following independent services provided in the month of August, 2015 and determine the amount of service tax payable, if any, in each of these cases:

S. No.	Particulars	(₹)
1.	Services by way of waxing of apples to provide it an artificial sheen for increasing its marketability	1,00,000
2.	Admission to a Railway Museum	50,000
3.	Transportation of patients to ABC Nursing Home and Bheem Multispecialty Hospital, in an ambulance owned by XYZ Ltd.	1,20,000
4.	Admission to a Telly Award Function [Value per ticket per person is ₹ 510]	5,10,000
5.	Transportation of milk by a goods transport agency	1,50,000

Note: Ignore small service providers' exemption. Wherever applicable, service tax has been charged separately.

21. Kesar Maharaj, a renowned classical dancer gave a classical dance performance in an auditorium. The consideration charged for the said performance is ₹ 98,500. Is Kesar Maharaj liable to pay service tax on the consideration received for the said performance if such performance is not for promotion of any product/services? If yes, determine his service tax liability. Will your answer be different if:
- consideration charged by Kesar Maharaj for the said performance is ₹ 1,20,000?
 - Kesar Maharaj is a brand ambassador of a food product and aforesaid performance is for the promotion of such food product?
 - Kesar Maharaj gives a contemporary Bollywood style dance performance?

Note: Ignore small service providers' exemption. Wherever applicable, service tax has been charged separately.

Payment of service tax at alternative rates

22. Mr. Paritosh is an air travel agent. He is finding it difficult to charge service tax @ 14% on the value of services provided by him. Can Mr. Paritosh pay service tax at any alternative rate? Explain.

Whether such option of payment of service tax at alternative rates is available in respect of any other service? If yes, mention such service(s).

CENVAT credit

23. "CENVAT credit of excise duty paid on inputs can be taken by a manufacturer or an output service provider only when the same are received in the factory or the premises of the output service provider."

Examine the validity of the statement.

24. LT Pvt. Ltd. manufactures rubber slippers. Compute the CENVAT credit available with LT Pvt. Ltd. in respect of the following goods/services procured by it:

S. No.	Particulars	Excise duty paid (₹)	Service tax paid (₹)
(i)	Machine for manufacture of rubber soles	10,00,000	
(ii)	Rubber sheets for manufacture of slippers	5,00,000	
(iii)	Adhesives	50,000	
(iv)	Club Membership fee of employees		1,00,000
(v)	Expenses incurred on advertising the slippers on television		5,00,000

Note: LT Pvt. Ltd. is not entitled to SSI exemption under Notification No. 8/2003 CE dated 01.03.2003.

SUGGESTED ANSWERS/HINTS

1.

	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
(i)	Partly Taxable	1,500	The interest on Post Office Savings Bank Account, would be exempt under section 10(15)(i), only to the extent of ₹ 3,500 in case of an individual account. Hence, ₹ 11,500 will be taxable under the head "Income from other sources" and will form part of Gross Total Income. ₹ 10,000, however, would be allowed as deduction under section 80TTA from Gross Total Income.
(ii)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of Canada, who visited India to represent a case at the Madras High Court would be taxable in India.

(iii)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried in France, would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
(iv)	Taxable	11,00,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. Avi for services rendered in USA would be deemed to accrue or arise in India, since he is a citizen of India.

2. Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Mr. X from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Computation of eligible deduction under section 10AA [See Working Note below]:

(i) If Unit in SEZ was set up and began manufacturing from 18-08-2009:

Since A.Y. 2016-17 is the 7th assessment year from A.Y. 2010-11, relevant to the previous year 2009-10, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \frac{\text{Profits of Unit in SEZ}}{\text{SEZ}} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\
 &= 90 \text{ lakhs} \times \frac{260 \text{ lakhs}}{600 \text{ lakhs}} \times 50\% = ₹ 19.50 \text{ lakhs}
 \end{aligned}$$

(ii) If Unit in SEZ was set up and began manufacturing from 23-09-2013:

Since A.Y.2016-17 is the 3rd assessment year from A.Y. 2014-15, relevant to the previous year 2013-14, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of

such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

$$= 90 \text{ lakhs} \times \frac{260 \text{ lakhs}}{600 \text{ lakhs}} \times 100\% = ₹ 39 \text{ lakhs}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Mr. X (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	9,00,00,000	3,00,00,000	6,00,00,000
Export Sales	4,80,00,000	2,20,00,000	2,60,00,000
Net Profit	1,20,00,000	30,00,000	90,00,000

3. Computation of taxable income of Mr. Shyam for the A.Y. 2016-17

Particulars	₹	₹
<u>Income from salary</u>		
Basic salary (₹ 30,000 x 12)		3,60,000
Dearness allowance @ 30%		1,08,000
Transport allowance (₹ 1800 x 12)	21,600	
Less: Exemption under section 10(14) (read with Rule 2BB @ ₹ 1,600 p.m.)	19,200	2,400
Motor car maintenance borne by employer [₹ 40,000 - ₹ 21,600 (i.e., ₹ 1,800 × 12)]		18,400
Expenditure on accommodation while on official duty not a perquisite and hence not chargeable to tax		Nil
Value of lunch provided during working hours (not chargeable to tax as per Rule 3(7)(iii)-free food provided by the employer during working hours is not treated as perquisite provided that the value thereof does not exceed fifty rupees per meal)		Nil
Computer provided in the residence of employee by the employer – not chargeable to tax [Rule 3(7)(vii)]		Nil

<u>Income from other sources</u>		
Interest on saving bank account		12,000
Gross Salary		5,00,800
Less: Deduction under Chapter VI-A		
<u>Under section 80C</u>		
Tuition fees paid for two children ₹ 1,60,000		
Restricted to		1,50,000
<u>Under section 80D</u>		
Medical insurance premium otherwise than by way of cash would only be allowed as deduction. Hence, only premium paid by cheque would be deductible	22,000	
Expenditure on Preventive health checkup restricted to ₹ 5,000 (payment made in cash would also qualify for deduction)	<u>5,000</u>	
	<u>27,000</u>	
Restricted to overall limit of		25,000
<u>Under section 80TTA</u>		
Interest on saving bank account ₹ 12,000, subject to a limit of ₹ 10,000		10,000
Total income		3,15,800

4. In this case, Garima has more than one house property for self-occupation. As per section 23(4), Garima can avail the benefit of self-occupation (i.e., benefit of “Nil” Annual Value) only in respect of one of the house properties, at her option. The other house property would be treated as “deemed let-out” property, in respect of which the expected rent would be the gross annual value. Garima should, therefore, consider the most beneficial option while deciding which flat should be treated by her as self-occupied.

OPTION 1 [Flat at Adyar – Self-occupied and Flat at Mylapore – Deemed to be let out]

If Flat at Adyar is opted to be self-occupied, Garima's income from house property for A.Y.2016-17 would be –

Particulars	Amount in ₹
Flat at Adyar (Self-occupied) [Annual value is Nil]	Nil
Flat at Mylapore (Deemed to be let-out) [See Working Note below]	50,340
Income from house property	50,340

OPTION 2 [Flat at Adyar – Deemed to be let out and Flat at Mylapore – Self-occupied]

If Flat at Mylapore is opted to be self-occupied, Garima's income from house property for A.Y.2016-17 would be –

Particulars	Amount in ₹
Flat at Adyar (Deemed to be let-out) <i>[See Working Note below]</i>	84,000
Flat at Mylapore (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property , the interest deduction would be restricted to ₹ 30,000, irrespective of the date of borrowal].	(30,000)
Income from house property	54,000

Since Option 1 is more beneficial, Garima should opt to treat Flat at Adyar as Self-occupied and Flat at Mylapore as Deemed to be let out, in which case, her income from house property would be ₹ 50,340 for the A.Y. 2016-17.

Working Note:**Computation of income from Flats at Adyar & Mylapore assuming that both are deemed to be let out**

Particulars	Amount in Rupees	
	Flat at Adyar	Flat at Mylapore
Gross Annual Value (GAV)		
Expected Rent is the GAV of house property Expected Rent = Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,20,000	1,60,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	13,800
Net Annual Value (NAV)	1,20,000	1,46,200
Less: Deductions under section 24		
(a) 30% of NAV	36,000	43,860
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	52,000
Income from deemed to be let-out house property	84,000	50,340

5. (i) **The statement is not correct.**

As per the third proviso to section 32(1)(ii), 50% of the additional depreciation on new plant and machinery acquired and used for less than 180 days in the year of

acquisition and installation which has not been allowed as deduction in that previous year, shall be allowed in the immediately succeeding previous year.

Hence, the balance additional depreciation of 10% (i.e. 50% of 20%) can be claimed in the immediately succeeding previous year i.e., P.Y. 2016-17

(ii) The statement is not correct.

If an undertaking is set up in any notified backward area in the states of Andhra Pradesh or Bihar or Telangana or West Bengal by a company, it shall be eligible to claim deduction under section 32AC as well as under section 32AD, if it fulfills the conditions specified in section 32AC and the conditions specified in section 32AD.

In the given case, a manufacturing company set up in Vaishali i.e., a notified backward area in the State of Bihar, acquires and installs new plant and machinery for ₹ 30 crores in P.Y. 2015-16. Hence, it will be entitled to deduction under section 32AC (since the investment in new plant and machinery exceeds ₹ 25 crores) as well as under section 32AD (since the undertaking is set-up in a notified backward area in the State of Bihar), assuming that it fulfills the other conditions specified thereunder.

(iii) The statement is not correct.

The proviso to section 36(1)(iii) provides that interest paid on capital borrowed for acquisition of an asset (whether capitalized in the books of account or not) for the period upto the date on which such asset was first put to use shall not be allowed as deduction. This is irrespective of whether the acquisition of asset was for extension of existing business or not.

Therefore, interest paid on capital borrowed for acquisition of an asset for the period upto the date on which such asset was first put to use shall be capitalized even if the acquisition is not for the extension of existing business or profession.

6. In the hands of the seller, Mr. Sitesh

As per section 50C(1), where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer.

Where the assessee appeals against the stamp valuation and the value is reduced in appeal by the appellate authority (Revenue Divisional Officer, in this case), such value will be regarded as the consideration received or accruing as a result of transfer.

In the given problem, land has been held for a period exceeding 36 months and building for a period less than 36 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

Particulars	₹
Long term capital gain on sale of land	
Consideration received or accruing as a result of transfer of land	25,00,000
Less: Indexed cost of acquisition ₹ 6,19,000 x 1081/711	<u>9,41,124</u>
Long-term capital gain (A)	<u>15,58,876</u>
Short-term capital loss on sale of building	
Consideration received or accruing from transfer of building	10,00,000
Less: Cost of acquisition	<u>12,50,000</u>
Short term capital loss (B)	<u>(2,50,000)</u>

As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹ 13,08,876 (i.e., ₹ 15,58,876 – ₹ 2,50,000). The same would be taxable @ 20% under section 112, after adjusting un-exhausted basic exemption limit, if any, against such long term capital gain.

In the hands of the buyer Mr. Gautam

As per section 56(2)(vii), where an individual or HUF receives from a non-relative, any immovable property for a consideration which is less than the stamp value (or the value reduced by the appellate authority, as in this case) by an amount exceeding ₹ 50,000, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources. Therefore, ₹ 5,00,000 (i.e. ₹ 35,00,000 - ₹ 30,00,000) would be charged to tax as income from other sources under section 56(2)(vii) in the hands of Mr. Gautam.

7. Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Chauhan received a gift of ₹ 4,00,000 on 1.4.2015 from his wife Mrs. Aparna, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Aparna for the A.Y. 2016-17 is computed as under:

Particulars	Mr. Chauhan's capital contribution (₹)	Capital contribution out of gift from Mrs. Aparna (₹)	Total (₹)
Capital as on 1.4.2015	6,00,000 (10,00,000 – 4,00,000)	4,00,000	10,00,000
Profit for P.Y.2015-16 to be apportioned on the basis of	3,00,000	2,00,000	5,00,000

capital employed on the first day of the previous year i.e. as on 1.4.2015 (3:2)	$\left(5,00,000 \times \frac{3}{5}\right)$	$\left(5,00,000 \times \frac{2}{5}\right)$	
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Therefore, the income to be clubbed in the hands of Mrs. Aparna for the A.Y.2016-17 is ₹ 2,00,000.

In case Mrs. Aparna gave the said amount of ₹ 4,00,000 as a *bona fide* loan, then, clubbing provisions would not be attracted.

8. **Computation of Gross Total Income of Mr. Jain for the A.Y. 2016-17**

Particulars	₹	₹
(i) Income from salary	70,000	
Less: Loss from house property (set-off as per section 71)	<u>25,000</u>	45,000
(ii) Capital gains		
Long term capital gain on sale of land	82,700	
Less: Set-off of business loss as per section 71	<u>40,000</u>	
	42,700	
Less: Set-off of brought forward short term capital loss [Short-term capital loss can be set-off against both short- term capital gains and long-term capital gains as per section 74(1)]	<u>9,700</u>	
	33,000	
Less: Unabsorbed depreciation (can be set-off against any head of income other than salaries)	<u>20,000</u>	<u>13,000</u>
Gross total income		<u>58,000</u>

Losses to be carried forward to A.Y.2017-18

	Particulars	₹
(1)	Loss from speculative business [to be carried forward as per section 73] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2015-16 has to be carried forward to A.Y. 2017-18 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2019-20]	22,000

(2)	Loss on maintenance of race horses [to be carried forward as per section 74A] [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2020-21]	21,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

Notes:

- (1) Section 71 permits set-off of losses incurred under one head against income earned under any other head of income. Therefore, loss from house property has been set-off against salary income.
- (2) However, there are certain exceptions contained in section 71 on inter-head set-off of losses. Business loss and unabsorbed depreciation cannot be set-off against salary income as per section 71(2A). However, there is no bar in setting-off the business loss and unabsorbed depreciation against long term capital gain. Hence, business loss and unabsorbed depreciation have been set off against long term capital gain.

9. (i) Deduction available to Mr. Hariharan under Chapter VI-A for A.Y.2016-17

Section	Particulars	₹	₹
80C	Deposit in public provident fund ₹ 1,60,000 (deduction restricted to ₹ 1,50,000)	1,50,000	
	Life insurance premium paid ₹ 25,000 (deduction restricted to ₹ 20,000, being 20% of ₹ 1,00,000, which is the sum assured, since the policy was taken before 01.04.2012)	20,000	
	Five year term deposit with bank	50,000	
		2,20,000	
	Restricted to		1,50,000
80CCD(1)	Contribution to NPS of the Central Government, ₹ 1,60,000 [₹ 2,10,000 – ₹ 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [₹ 2,10,000 x 10/15] [See Note 1]		1,40,000
			2,90,000

80CCE	Aggregate deduction under section 80C and 80CCD(1), ₹ 2,90,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,40,000
80D	(i) (a) Medical insurance premium for self	22,000	
	(b) Preventive health check up ₹ 5,000 for wife restricted to ₹ 3,000 (₹ 25,000 - ₹ 22,000, since maximum allowable deduction is ₹ 25,000)	<u>3,000</u> 25,000	
80D	(ii) (a) Health Insurance premium for his father	26,000	
	(b) Preventive health check up ₹ 5,000 restricted to ₹ 2,000 (₹ 5,000 - ₹ 3,000), since maximum allowable deduction in respect of preventive health check up under section 80D is ₹ 5,000 ¹ .	<u>2,000</u> 28,000	
	Whole of the amount of ₹ 28,000 allowed as deduction, since maximum allowable deduction is ₹ 30,000, where the parent is a senior citizen.		
	Total of (i) and (ii)		53,000
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 50,000		1,25,000
Deduction under Chapter VI-A			5,18,000

¹ In the alternative, preventive health check-up of ₹ 4,000 of his father can be claimed, in which case, expenses on preventive health check-up of wife can be claimed only to the extent of ₹ 1,000. In such case also, the total deduction under section 80D would be ₹ 53,000 (₹ 23,000 + ₹ 30,000)

Notes:

- (1) The deduction under section 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Hariharan to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,60,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,40,000.
- (2) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of ₹ 1,50,000 under section 80CCE
- (ii) If the contribution towards NPS is ₹ 1,40,000, here again, it is beneficial for Mr. Hariharan to first claim deduction of ₹ 50,000 under section 80CCD(1B) and the balance of ₹ 90,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of ₹ 1,50,000 under section 80CCE. In any case, the aggregate deduction of ₹ 2,40,000 [i.e., ₹ 1,50,000 under section 80C and ₹ 90,000 under section 80CCD(1)] cannot exceed the overall limit of ₹ 1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., ₹ 5,18,000.

10. Computation of total income and tax liability of Dr. Ashish Puri for the A.Y.2016-17

Particulars	₹
Income from salary (Working Note – 1)	96,000
Income from business (Working Note – 2)	2,57,050
Long-term capital gains (Working Note – 3)	2,88,432
Income from other sources (Working Note – 4)	<u>60,000</u>
Gross Total Income	7,01,482
Less: Deduction under Chapter VI-A (Working Note – 5)	<u>1,55,000</u>
Total Income	<u>5,46,482</u>
Tax on total income (Working Note - 6)	63,991
Add: Education cess @ 2% and SHEC @1%	<u>1,920</u>
Total tax liability	65,911
Less: Tax deducted at source (TDS)	<u>12,000</u>
Tax payable	<u>53,911</u>
Rounded off	53,910

Working Notes:**1. Computation of salary income**

Particulars	₹
Gross Salary (₹ 8,000×12)	96,000
Less: Deduction under section 16	<u>Nil</u>
Net Salary	<u>96,000</u>

2. Computation of income under the head “Profits and gains of business or profession”

Particulars	₹	₹
Net Income as per Income and Expenditure Account		2,51,800
<i>Add:</i> Expenses disallowed:		
Depreciation (₹ 91,000 – ₹ 50,000)	41,000	
Cost of medicine for self-use	25,000	
Donation to Prime Minister’s National Relief Fund	<u>5,000</u>	<u>71,000</u>
		3,22,800
<i>Less:</i> Dividend from Indian companies	15,000	
Income-tax refund	2,750	
Winning from Lotteries	28,000	
Honorarium for valuing answer books	<u>20,000</u>	<u>65,750</u>
		<u>2,57,050</u>

3. Computation of Capital Gains

Particulars	₹	₹
Sale consideration	12,00,000	
Valuation as per Stamp Valuation Authority (Value to be taken is the higher of actual sale consideration or valuation adopted for stamp duty purposes as per section 50C)	14,00,000	
Consideration for the purpose of capital gain		14,00,000
Less: Cost of acquisition = ₹ 4,00,000 x 1081/389		<u>11,11,568</u>
Long term capital gain		<u>2,88,432</u>

4. Computation of income under the head “Income from other sources”

Particulars	₹	₹
Dividend from Indian Companies [Exempt u/s 10(34)]		-
Honorarium for valuing answer books		20,000

Winning from Lotteries (Net)	28,000	
Add: TDS	<u>12,000</u>	<u>40,000</u>
Income from other sources		<u>60,000</u>

Note: As per section 58(4), no expense or deduction is allowable in respect of winnings from lotteries.

5. Computation of deduction under Chapter VI-A

Particulars	₹
U/s 80C Life Insurance Premium (whole amount is allowed as deduction since it is within the limit of 10% of sum assured)	45,000
PPF	<u>1,50,000</u>
	<u>1,95,000</u>
Restricted to	1,50,000
U/s 80G Donation to Prime Minister's National Relief Fund [See Note below]	<u>5,000</u>
Total deduction under Chapter VI-A	<u>1,55,000</u>

Note –The donation made to the Prime Minister's National Relief Fund qualifies for 100% deduction under section 80G.

6. Computation of tax on total income

Particulars	₹
Tax on agricultural income plus non-agricultural income i.e. tax on ₹ 8,21,482 (being ₹ 2,75,000 + ₹ 5,46,482) [See Note below]	93,991
Less: Tax on agricultural income plus basic exemption limit i.e. tax on ₹ 5,25,000, (being ₹ 2,75,000 + ₹ 2,50,000)	<u>30,000</u>
Tax on total income	<u>63,991</u>

Note: Tax on ₹ 5,46,482 plus agricultural income of ₹ 2,75,000 is computed hereunder:

Particulars	₹
Tax on long term capital gain ₹ 2,88,432 @ 20%	57,686
Tax on winnings from lotteries ₹ 40,000 @ 30%	12,000

Tax on balance income of ₹ 4,93,050 (₹ 8,21,482 – ₹ 2,88,432 – ₹ 40,000)	<u>24,305</u>
	<u>93,991</u>

Note: Agricultural income is exempt from tax. It is considered for rate purpose only.

7. Any sum received under a life insurance policy is wholly exempt from tax under section 10(10D), subject to satisfaction of conditions given thereunder. In this case, it is presumed that all the conditions are satisfied.
11. (i) Theta Co-operative Bank has to deduct tax at source @10% on the interest of ₹ 48,000 ($8\% \times ₹ 12 \text{ lakh} \times \frac{1}{2}$) under section 194A.
- (ii) Since Omega Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered, and if the same exceeds ₹ 10,000, tax is deductible under section 194A. Omega Bank has to deduct tax at source @10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 16,000, which exceeds the threshold limit of ₹ 10,000.

Branch	Amount of deposit (₹)	Rate of Interest	Period in months	Amount of Interest (₹)
Adyar	60,000	10%	10	5,000
Anna Nagar	80,000	10%	9	6,000
Nungambakkam	75,000	10%	8	5,000
Total				16,000

- (iii) Tax has to be deducted @ 10% under section 194A by Gamma Bank on the interest of ₹ 13,000 (See Working Note below) falling due on recurring deposit on 31.3.2016 to Ms. Meena, since –
- (1) “recurring deposit” has been included in the definition of “time deposit”; and
- (2) such interest exceeds the threshold limit of ₹ 10,000.

Working Note:

Computation of Interest

$$= ₹ 20,000 \times 10\% \times [(12+11+10+9+8+7+6+5+4+3+2+1)/12]$$

$$= ₹ 2,000 \times (78/12)$$

$$= ₹ 13,000$$

12. Any person who has furnished a return under section 139(1) or in pursuance of a notice issued under section 142(1) can file a revised return if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (i) A belated return filed under section 139(4) cannot be revised. Only a return furnished under section 139(1) or in pursuance of a notice issued under section 142(1) can be revised.
- (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. within one year from the end of the relevant assessment year or before the completion of assessment, whichever is earlier.
- (iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

13. Computation of assessable value and excise duty payable

Particulars	(₹)
Price of machine excluding taxes and duties	10,00,000
Add: Outward handling charges [Note 1]	-
Protective packing charges [Note 2]	12,500
Installation and erection expenses [Note 3]	-
Testing and inspection charges [Note 2]	40,000
Delayed payment charges [Note 4]	-
Dharmada charged in the invoice [Note 5]	<u>10,000</u>
Assessable value	<u>10,62,500</u>
Excise duty payable @ 12.5% [rounded off]	1,32,813

Notes:

1. Outward handling charges are not included in the assessable value as the same are incurred after the place of removal.
2. Protective packing charges and testing and inspection charges have been included in the assessable value as such payments are 'in connection with sale'.
3. Installation and erection expenses have not been included in the assessable value as the same are incurred after the place of removal and after the installation and erection, machine has been permanently affixed to earth and thus, it has resulted in an immovable property.
4. Delayed payment charges are not includible as the same are finance charges and cannot be considered as payment by reason of sale.
5. Dharmada charged in the invoice and recovered from the customer is includible in the assessable value.

14. **Computation of customs duty payable**

Particulars	Rate %	Amount (₹)	Amount of Duty (₹)
Assessable value		2,00,000	
Basic customs duty	10	20,000	20,000
Sub-total for calculating CVD		2,20,000	
CVD (₹ 2,20,000 x excise duty rate)	12.5	27,500	27,500
Sub-total for education cess on customs (₹ 20,000 + ₹ 27,500)		47,500	
Education cess of customs	2	950	950
Secondary and Higher Education cess of customs	1	475	475
Sub-total for special CVD (₹ 2,00,000 + ₹ 20,000 + ₹ 27,500 + ₹ 950 + ₹ 475)		2,48,925	
Special CVD u/s 3(5)	4	9,957	<u>9,957</u>
Total customs duty payable			<u>58,882</u>

Since ABC Ltd. is a service provider, it can avail CENVAT credit of only CVD i.e. only of ₹ 27,500 and not of special CVD.

15. (i) Since in the given case, sale is effected by transfer of documents of title to the goods after the goods have crossed the customs frontiers of India, it is not an inter-State sale, but a sale in the course of export.
- (ii) The sale is completed at Delhi itself. Therefore, the sale does not occasion the movement of goods from one State to another. Hence, sale of goods by N to M is not an inter-State sale.
- (iii) Since in this case, the sale has occasioned the import of the goods into the territory of India, it is not an inter-State sale, but a sale in the course of import.

16. **Computation of total sales value**

Particulars	₹
Intra-State purchases of raw material [excluding VAT of ₹ 10,000 (80,000 x 12.5%)]	80,000
High seas purchases of raw materials [Note 1]	2,03,500
Purchase of raw materials from West Bengal [Note 2]	51,000
Transportation charges, wages and manufacturing expenses	<u>3,50,000</u>
Cost of production	6,84,500

Add: Profit margin 10%	<u>68,450</u>
Sale price (exclusive of VAT)	7,52,950
Add: VAT @ 12.5% (rounded off)	<u>94,119</u>
Total sales value (invoice value)	<u>8,47,069</u>

Computation of net VAT liability

	₹
VAT paid on sales @ 12.5%	94,119
Less: Input tax credit on intra-State purchases [Note 3]	<u>10,000</u>
Net VAT payable	<u>84,119</u>

Notes:

1. Duty paid on high seas purchases i.e., imports is not a State VAT, so input tax credit is not available in respect of the same and it is a part of cost of production.
 2. Input tax credit in respect of tax paid on inter-State purchases is not allowed and it is a part of cost of production.
 3. Tax on intra-State purchases is ₹ 10,000. As credit of the same will be available, it is not included in the cost of production.
 4. Interest on loan has been excluded while calculating the cost of production as the loan is availed for purposes other than working capital.
17. (a) Earlier, services by way of carrying out any process amounting to manufacture or production of goods were covered in the Negative List of services under section 66D of the Finance Act, 1994.
- However, Finance Act, 2015 has amended section 66D to exclude process for production or manufacture of alcoholic liquor for human consumption from the ambit of negative list. Further, the definition of the term “process amounting to manufacture or production of goods” as provided in section 65B has also been amended to exclude from its scope, the process amounting to manufacture of “alcoholic liquors for human consumption”. Simultaneously, Mega Exemption Notification No. 25/2012 ST dated 20.06.2012 has been amended to withdraw exemption pertaining to intermediate production of alcoholic liquor for human consumption.
- Consequently, service tax would be leviable on manufacture of alcoholic liquor for human consumption on job-work basis by AB Pvt. Ltd.
- (b) Earlier, “admission to entertainment events or access to amusement facilities” was covered in the Negative List of services under section 66D of the Finance Act, 1994.

However, the said entry has been omitted from section 66D vide the Finance Act, 2015. Therefore, service tax would be leviable on admission to entertainment event or access to amusement facility.

Thus, entry fee to Splash and Splutter water park (being an entry to amusement facility) will be chargeable to service tax.

18. In case of “associated enterprises”, where the person providing the service is located outside India, the point of taxation shall be:-

(a) the date of debit in the books of account of the person receiving the service

or

(b) date of making the payment

whichever is earlier.

Hence, in the given case, the point of taxation shall be earlier of the following two dates:-

(a) the date of debit in the books of account of SIL i.e., 05.08.2015

or

(b) date of making the payment i.e., 24.09.2015

Thus, the point of taxation will be 05.08.2015.

19. **Computation of service tax liability of BIE Academy for the month of July, 2015**

Particulars	₹
Free online access for coaching (Note 1)	Nil
Advance fees collected from students for online coaching sessions (Note 2)	12,00,000
Advance received from ABC School (Note 2 & 3)	<u>5,92,000</u>
Value of taxable services including service tax	17,92,000
Service tax liability $\left(\frac{17,92,000 \times 14}{114} \right)$ (rounded off)	2,20,070

Notes:

1. Service is an activity carried out, *inter alia*, for a consideration. Therefore, since no consideration is involved in case of free services, service tax is not payable thereon.
2. Since, services agreed to be provided are also chargeable to service tax, advance received will be liable to service tax [Section 66B].

Advanced received is taxable at the time when such advance is received [Rule 3 of the Point of Taxation Rules, 2011].

3. Since service becomes taxable on an agreement to provide a service, deposits forfeited (on cancellation of agreement) would represent consideration for the agreement that was entered into for provision of service. Further, had the advance deposit alongwith service tax been returned to ABC School on cancellation of agreement, credit of such service tax would have been available.
4. Since the service tax paid in preceding financial year 2014-15 is ₹ 15.6 lakh, the aggregate value of taxable services must have exceeded ₹ 10 lakh in said financial year. Thus, BIE Academy is not eligible for small service provider exemption in the current financial year 2015-16.

20. **Computation of service tax payable**

S. No.	Particulars	Value of taxable services (₹)	Service tax liability (₹)
1.	Services by way of waxing of apples to provide it an artificial sheen for increasing its marketability [Note 1]	Nil	
2.	Admission to a Railway Museum [Note 2]	Nil	
3.	Transportation of patients to ABC Nursing Home and Bheem Multispecialty Hospital, in an ambulance owned by XYZ Ltd. [Note 3]	Nil	
4.	Admission to a Telly Award Function [Note 4]	5,10,000	5,10,000 × 14% = 71,400
5.	Transportation of milk by a goods transport agency [Note 5]	Nil	

Notes:

As per mega exemption *Notification No. 25/2012 ST dated 20.06.2012*:

1. services by way of waxing of fruits which do not change/alter the essential characteristics of the said fruits are exempt from service tax.
2. services provided by way of admission to a museum are exempt from service tax.
3. ambulance services provided by an entity which is not a clinical establishment or an authorised medical practitioner or paramedics are also exempt from service tax.
4. service by way of admission to award functions is exempt from service tax if the amount charged is upto ₹ 500 per person for right to admission to such event. In case the amount charged per person exceeds ₹ 500, entire consideration would be liable to service tax.

5. services of transportation of milk, salt and food grain including flours, pulses and rice by a goods carriage are exempt from service tax.
21. Mega exemption *Notification No. 25/2012 ST dated 20.06.2012* exempts services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, if the consideration charged for such performance is not more than ₹ 1,00,000. However, exemption will not apply to service provided by such artist as a brand ambassador.

In view of the aforesaid provisions, services provided by Kesar Maharaj are exempt from service tax as consideration for the classical dance performance has not exceeded ₹ 1,00,000. Therefore, his service tax liability is nil.

- (i) If the consideration charged for the said performance by Kesar Maharaj is ₹ 1,20,000, he will be liable to pay service tax on the same as although the performance is by way of classical art form of dance, consideration charged for such performance has exceeded ₹ 1,00,000. His service tax liability would, therefore, be ₹ 16,800 (₹ 1,20,000 × 14%).
- (ii) If Kesar Maharaj is a brand ambassador of a food product and aforesaid performance is for the promotion of such food product, he will be liable to pay service tax as aforesaid exemption is not applicable to service provided by an artist as a brand ambassador. His service tax liability would, therefore, be ₹ 13,790 (₹ 98,500 × 14%).
- (iii) If Kesar Maharaj gives a contemporary Bollywood style dance performance, such performance will not be eligible for aforesaid exemption. The reason for the same is that although the consideration charged does not exceed ₹ 1,00,000, said performance is not in folk or classical art forms of dance. Hence, service tax would be payable on the same. His service tax liability would, therefore, be ₹ 13,790 (₹ 98,500 × 14%).
22. Person liable for paying the service tax in relation to the services of booking of tickets for travel by air provided by an air travel agent, has an option to pay following amounts instead of paying service tax at the rate of 14%:-

In the case of	Option to pay an amount calculated at the rate of
Domestic bookings of passage for travel by air	0.7% of the basic fare
International bookings of passage for travel by air	1.4% of the basic fare

Here, basic fare means that part of the air fare on which commission is normally paid to the air travel agent by the airline.

Therefore, Mr. Paritosh can pay service tax at the above-mentioned alternative rates instead of paying service tax at 14%. However, he should keep in mind that if he exercises such an option, the same will apply uniformly in respect of all the bookings of

passage for travel by air made by him and cannot be changed during a financial year under any circumstances.

Yes, the option of payment of service tax at alternative rates is available in respect of three other services namely, life insurance service, purchase or sale of foreign currency including money changing and promotion, marketing or organising/assisting in organising lottery.

23. The statement is partially correct.

A manufacturer can take CENVAT credit of the excise duty paid on the inputs when the same are received in-

- the factory of the manufacturer; or
- the premises of job worker, in case goods are sent directly to the job worker on the direction of the manufacturer.

An output service provider can take CENVAT credit of the excise duty paid on the inputs when the same are-

- received in the premises of the provider of output service, or
- received in the premises of job worker, in case goods are sent directly to the job worker on the direction of the output service provider; or
- delivered to such provider (at a place other than his premises), subject to maintenance of documentary evidence of delivery and location of the inputs.

24. **Computation of CENVAT credit available with LT Pvt. Ltd.**

Particulars	₹
Machine for manufacture of rubber soles [Note 1]	5,00,000
Rubber sheets for manufacture of slippers [Note 2]	5,00,000
Adhesives [Note 2]	50,000
Club membership fee of employees [Note 3]	Nil
Expenses incurred on advertising the slippers on television [Note 4]	<u>5,00,000</u>
Total CENVAT credit available	<u>15,50,000</u>

Notes:

1. Since LT Pvt. Ltd. is not a SSI unit, CENVAT credit of only upto 50% of the excise duty paid is available in respect of the eligible capital goods, in the year of purchase [Rule 4 of CCR].
2. Raw material (rubber sheets) and consumables (adhesives) are eligible inputs.
3. Services used primarily for personal use or consumption of any employee are excluded from the definition of input service.
4. Advertising service is an eligible input service.