

Roll No.....

MAY 2010

IPCC
GROUP-I PAPER-4
TAXATION

Total No. of Questions—8]

[Total No. of Printed Pages—7

Time Allowed—3 Hours

Maximum Marks—100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer all questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

		Marks	
1.	Mr. Dinesh Karthik, a resident individual aged 45, furnishes the following information pertaining to the year ended 31.3.2010 :	16	
(i)	He is a partner in Badrinath & Co. He has received the following amounts from the firm :		
	Interest on capital at 15%	Rs. 3,00,000	
	Salary as working partner (at 1% of firm's sales)	Rs. 90,000	
(ii)	He is engaged in a business in which he manufactures wheat flour from wheat. The Profit and Loss account pertaining to this business (summarised form) is as under :		
To	Rs. By	Rs.	
Salaries	1,20,000	Gross profit	12,50,000
Bonus	48,000	Interest on Bank FD	
		(Net of TDS 5,000)	45,000
Car expenses	50,000	Agricultural income	60,000
Machinery repairs	2,34,000	Pension from LIC Jeevandhara	24,000

To	Rs.	By	Rs.
Advance tax	70,000		
Depreciation			
Car	3,00,000		
Machinery	1,25,000		
Net profit	4,32,000		
	<u>13,79,000</u>		<u>13,79,000</u>

Opening WDV of assets are as under :

	Rs.
Car	3,00,000
Machinery	6,50,000

(Used during the year for 170 days)

Additions to machinery

New purchased on 23.9.2009	2,00,000
New purchased on 12.11.2009	3,00,000
Old purchased on 12.4.2009	1,25,000

(All assets added during the year were put
to use immediately after purchase)

Of the total bonus amount, Rs. 15,000 was paid on 11.10.2009.

One-fifth of the car expenses are towards estimated personal use of the assessee.

(iii) In March, 2008, he had sold a house at Chennai. Arrears of rent relating to this house amounting to Rs. 75,000 was received in February, 2010.

(iv) Details of his Savings and Investments are as under :

Life Insurance premium for policy in the name of his major son employed in LMN Ltd. at a salary of Rs. 6 lacs p.a.	Rs.
Sum assured Rs. 2,00,000	50,000

Contribution to Pension Fund of National Housing Bank	70,000
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(This was met partially from out of premature withdrawal of deposit in Post Office Time Deposit made on 12.3.2006
Principal component Rs. 55,000 and Interest Rs. 5,000)

Medical Insurance premium for his father aged 70, who is not dependent on him	22,000
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You are required to compute the total income of Mr. Dinesh Karthik for the assessment year 2010-11 and the tax payable by him. Also indicate whether interest, if any, under sections 234A and 234B are payable, assuming that the return was filed on 28th September, 2010.

Computation of interest, if any, is NOT required.

2. (a) Mr. Tenzingh is engaged in composite business of growing and curing (further processing) Coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2010 are given below : 6

	(Rs.)
WDV of Car as on 1.4.2009	3,00,000
WDV of machinery as on 31.3.2009 (15% rate)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing Coffee	3,00,000
Sale value of cured Coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are Rs. 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the assessment year 2010-11. Show the WDV of the assets as on 31.3.2010.

- (b) Mr. Raj Kumar sold a house to his friend Mr. Dhuruv on 1st November, 2009 for a consideration of Rs. 25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty had to be paid on Rs. 45,00,000, which was the Government guideline value. Mr. Raj Kumar preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as Rs. 32,00,000 (Rs. 22,00,000 for land balance for building portion). The differential stamp duty was paid, accepting the said value determined. Assuming that the fair market value is Rs. 32,00,000, what are the tax 6

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implications in the hands of Mr. Raj Kumar and Mr. Dhuruv for the assessment year 2010-11 ? Mr. Raj Kumar had purchased the land on 1st June, 2006 for Rs. 5,19,000 and completed the construction of house on 1st October, 2007 for Rs. 14,00,000.

Cost inflation indices may be taken as 519 for the financial year 2006-07, 582 for the financial year 2007-08 and 632 for the financial year 2009-10.

3. From the following particulars of Income furnished by Mr. Anirudh pertaining to the year ended 31.3.2010, compute the total income for the assessment year 2010-11, if he is : 10

- (i) Resident and ordinary resident;
- (ii) Resident but not ordinarily resident;
- (iii) Non-resident :

Particulars	Amount (Rs.)
(a) Profit on sale of shares in Indian Company received in Germany	15,000
(b) Dividend from a Japanese Company received in Japan	10,000
(c) Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d) Dividend from RP Ltd., an Indian Company	6,000
(e) Agricultural income from lands in Gujarat	25,000

4. Answer the following questions with regard to the Provisions of the Income tax Act, 1961 : 3x4 =12

- (a) State the concessions granted to transport operators from 1st October, 2009 onwards in the context of cash payments under section 40A(3) and deduction of tax at source under section 194-C.
- (b) What are the conditions to be fulfilled by a Charitable Trust under section 12A for applicability of exemption provisions contained in sections 11 and 12 ?
- (c) What are the particulars required to be furnished with the return of income, as per section 139(6) ?

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5. Provide brief answer to the following questions on Service tax : $4 \times 2 = 8$
- (a) Is Service tax payable in respect of services provided in the Indian territorial waters ?
 - (b) Is Service tax leviable on fee collected by Public authorities while performing statutory functions under the provisions of law ?
 - (c) Can an assessee file a revised Service tax return ?
 - (d) Explain the term "Commercial training or Coaching centre."
6. (a) Virat Kohli & Co., a partnership firm, is providing taxable legal consultancy services, for the second consecutive assessment year. The firm furnishes the following information relating to the services rendered, bills raised, amounts received relating to this service, for the year ended 31.3.2010 : 8

		Rs.
(i)	Free services rendered to poor people (Value of the services computed on comparative basis)	40,000
(ii)	Advances received from clients for which no taxable service has been rendered so far	5,00,000
(iii)	Services billed to clients (Service tax has been charged separately in all the bills; the firm follows mercantile system of accounting)	12,00,000
(iv)	The firm has received the following amounts during the year : Relating to taxable services rendered in March, 2009 (excluding service tax at applicable rates and TDS under section 194-J of the IT Act, 1961 to the tune of Rs. 45,320)	5,44,680
	Relating to taxable services rendered in current year 2009 (excluding Service tax at applicable rates and TDS under section 194-J of the IT Act, 1961 to the tune of Rs. 1,20,000)	9,80,000*
	(*includes Rs. 50,000 for appearance fee before Labour Court received from another firm)	
	Service tax has been separately received for applicable items in (iv) above.	

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You are required to compute the value of taxable services for the year ended 31.3.2010 and the Service tax payable, briefly explaining the treatment of each item above.

(b) Answer the following questions on Service tax : $3 \times 3 = 9$

- (i) What is the scope of taxable service in respect of membership of Clubs or Associations ? State the exception to the same.
- (ii) Does a service provider have an option to pay Service tax at a rate different from the general rate applicable on gross value of taxable services, in the case of purchase and sale of foreign currency ?
- (iii) What is the late fee payable for delay in furnishing the Service tax return ? Can the same be waived ?

7. Answer the following questions on VAT : $4 \times 2 = 8$

- (a) What are the items aggregated in the Addition method to calculate the VAT payable ? When is this method mainly used ?
- (b) Is any threshold exemption limit fixed for dealers to obtain VAT registration, as per the White Paper ? If yes, why is the same provided ?
- (c) Is the VAT chain continued when a purchasing dealer opts for VAT composition scheme ? What is the loss to the seller and buyer opting for the composition scheme, and the subsequent buyers ?
- (d) Can it be said that VAT brings about certainty to a great extent in the matter of interpretational issues ? If so, how ?

8. (a) Mr. X, a dealer in Mumbai dealing in consumer goods, submits the following information pertaining to the Month of March, 2010 : 8

- (i) Exempt goods 'A' purchased for Rs. 2,00,000 and sold for Rs. 2,50,000.
- (ii) Goods 'B' purchased for Rs. 2,25,000 (including VAT) and sold at a margin of 10% profit on purchases (VAT rate 12.5%) ;

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(iii) Goods 'C' purchased for Rs. 1,00,000 (excluding VAT) and sold for Rs. 1,50,000 (VAT rate 4%) ;

(iv) His unutilized balance in VAT input credit on 1.3.2010 was Rs. 1,500.

Compute the turnover, Input VAT, Output VAT and Net VAT payable by Mr. X.

(b) Answer the following questions on VAT : 3×3=9

(i) What are the merits of VAT in the context of tax evasion, neutrality and transparency ?

(ii) State the importance of VAT invoice/tax invoice in administering VAT.

(iii) Discuss the tax consequences of Stock transfer under the VAT scheme.

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