

**PAPER – 7 : DIRECT AND INDIRECT TAXATION**

**SUGGESTED ANSWERS**

**SECTION-A**

**1.**

- (i) (A)
- (ii) (A)
- (iii) (D)
- (iv) (B)
- (v) (C)
- (vi) (D)
- (vii) (C)
- (viii) (B)
- (ix) (D)
- (x) (C)
- (xi) (D)
- (xii) (B)
- (xiii) (C)
- (xiv) (B)
- (xv) (D)

**SECTION – B**

**2. (a)**

**Total income of Savitri for the assessment year 2023-24:**

- |       |                                      |             |
|-------|--------------------------------------|-------------|
| (i)   | Resident and ordinarily resident     | ₹ 17,20,000 |
| (ii)  | Resident but not ordinarily resident | ₹ 9,20,000  |
| (iii) | Non-resident                         | ₹ 9,20,000  |

**2. (b)**

Income from salary chargeable in the hands of Mr Sahil ₹ 3,22,600

Alternate Answer: ₹ 3,27,600

**3. (a)**

Income from House Property chargeable in the hands of Mr. Gaurav ₹ 76,900

**3. (b)**

Income from Business and Profession ₹ 1,81,920

**4. (a)**

Capital gains in the hands of Manoj for the AY 2023-24 ₹ 22,25,000 (Long term)

**4. (b)**

Income from Other Sources of Ms Sonali for the A.Y. 2023-24 ₹ 1,19,200

**5. (a)**

Total Income ₹ 7,02,000

Total amount of losses to be carried forward to A.Y.2023-24 ₹ 90,000

**5. (b)**

Total income of Mrs Jyoti for the A.Y.2023-2024

	<b>Regular provision</b> ₹	<b>Section115 BAC</b> ₹
Total Taxable Income	6,02,000	10,12,000
Tax and cess payable	34,216	80,496

Advise:

In the instant case, tax liability under alternative tax regime under section 115BAC is higher, hence it is advisable NOT to opt for new scheme.

**6. (a)**

**Concept and Features of Indirect Taxes**

**1 Tax on goods and services :**

Indirect tax is levied at the time of supply or manufacture or purchase or sale or import or export of goods. Further, it is also levied on supply.

**2 Burden :**

Tax, being indirect tax paid by the seller, shall be recovered by the seller from the buyer. Thus, one can say that burden of indirect tax is shifted from seller to buyer and ultimately borne by consumers of such goods or services.

**3 Inflationary in nature :**

Cost of goods and services increases due to levy of indirect tax thus indirect taxes promote inflation.

**4 Social welfare :**

It is useful tool to promote social welfare by checking the consumption of harmful goods or sin goods through higher rate of tax.

**5 Wider Tax Base :**

Majority of goods and services are liable to indirect tax with very low threshold limits, so tax base is much wider in case of indirect tax in compare to direct tax.

**6 Regressive in Nature:**

All persons (rich or poor) will bear equal wrath of tax on goods or service consumed by them irrespective of their ability. In other words, indirect tax does not create any difference between rich and poor. Poor people are also required to pay equal percentage of tax on certain goods and service of mass consumption. Thus, it may increase the disparities between rich and poor.

**7 No pinch:**

Seller (the person on which indirect tax is levied) does not perceive a direct pinch of tax as it is recovered by him from the buyer and then he is paying to the Government. On the other hand, since it is inbuilt in the price of the goods, the ultimate payer (i.e. buyer) pay it without knowing that he is paying any tax to the Government.

## 6. (b)

### (i) Benefits of GST to Business and industry

- **Easy Compliance:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax-payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- **Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.
- **Removal of cascading:** A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- **Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness of the trade and industry.
- **Gain to manufacturers and exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

### (ii) Central and State Governments

- **Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- **Better controls and leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of GST that would be incentive tax compliance by traders.
- **Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore lead to higher revenue efficiency.
- **Boost to 'Make in India' initiative:** GST will give major boost to the 'Make in India' initiative of government of India by making goods and services produced in India competitive in the national as well as international market.

## 7. (a)

- (i) In case of services supplied by an insurance agent to any person carrying on insurance business, GST is liable to be paid under reverse charge by such person carrying on insurance business, located in the taxable territory.

Therefore, in the given case, GST is payable under reverse charge by the recipient of service i.e., Insurance Company.

- (ii) In case of services provided by a business facilitator to a banking company, GST is liable to be paid under reverse charge by such banking company, located in taxable territory.

Services provided by a business facilitator to a banking company with respect to accounts in its rural area branch are exempt from GST. Thus, services provided by him in respect of urban area branch of the bank will be taxable.

Therefore, in the given case, GST is payable under reverse charge by the recipient of service i.e., Banking Company.

(iii) In case of services supplied by a director of a company/body corporate to the said company/body corporate, GST is liable to be paid under reverse charge by such company/body corporate, located in taxable territory.

Therefore, in the given case, GST is payable under reverse charge by the recipient of service i.e., XYZ Company Ltd.

**7. (b)**

Value of taxable supply made by Happy Enterprises ₹ 12,47,500

**8. (a)**

Total ITC (Input Tax Credit) ₹ 5,73,000

**8. (b)**

**Conditions to impose Countervailing Duty on Subsidized articles**

- a. Any country or territory pays, or bestows, directly or indirectly, any subsidy upon the manufacture or production therein or the exportation therefrom of any article including any subsidy on transportation of such article;
- b. Such article is imported into India;
- c. Such article is imported directly / indirectly from the country of manufacture, production; and
- d. The article is imported in the same condition as when exported from the country of manufacture or production or has been changed in condition by manufacture, production or otherwise.

**Quantum of duty:-**

The Central Government may impose a countervailing duty not exceeding the amount of such subsidy.

**Duration of imposition:-**

Such duty shall be in force for 5 years (unless revoked earlier) from the date of its imposition.

However, it can be further extended for another 5 years.