

PAPER – 7 DIRECT AND INDIRECT TAXATION

SUGGESTED ANSWERS

SECTION-A

1.

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

SECTION – B

2. (a)

Nature of expenditure and receipts

- (i) Even though the salary is paid out of the capital account balance by the company, it will be treated as revenue expenditure in the hands of the company and it is a revenue receipt in the hands of the employee.
- (ii) Whether any income is received in lumpsum or in instalments, it will not make any difference as regards its nature. Thus, for the employee receiving lumpsum salary, it will be a revenue receipt.
- (iii) The amount spent on purchase of car by Mr. Desai is a capital expenditure for him and whereas the receipt from sale of car by Mr. Dhawal is a revenue receipt for him.
- (iv) Even if the benefit will last for more than one accounting year, such expenditure will be treated as revenue expenditure in the hands of Shreya.
- (v) The damages/ compensation is directly linked with the procurement of a capital asset, i.e., factory building. It is not a receipt in the course of profit earning process. Therefore, the amount received by ABC Ltd. is a capital receipt.

Alternative answer:

Since there is a view that the compensation received is a benefit arising from business taxable under section 28(iv) if any candidate answers with such reason that it is a revenue receipt due credit of 1 mark has to be given.

However, for the builder, it will be a revenue expenditure.

2. (b)

Computation of income from salary in the hands of Mr. Kaul		₹
Basic Salary		9,50,000
Dearness Allowance		1,14,000
Taxable Gratuity		9,65,385
Taxable Leave Encashment		2,15,800
Taxable commuted pension		3,00,000
	Total	25,45,185
Less: Standard Deduction		50,000
	Taxable salary	24,95,185

3. (a)

**Computation of Income from House Property chargeable in the hands of Mr Ramesh
for the Assessment Year 2024-25**

	₹
Expected rent for the whole year	8,50,000
Actual rent receivable for the let-out period	7,00,000
Unrealised rent is not deductible from actual rent in this case as Ramesh has not instituted any legal proceedings for recovery of the unpaid rent. Hence, one of the conditions laid out in rule 4 of the Income-tax rules, 1962 has not been fulfilled.	
Gross Annual Value (GAV) (Expected rent or Rent received, whichever is higher)	8,50,000
Less: - Municipal taxes	90,000
Net Annual Value (NAV)	7,60,000
Less: - Standard deduction under section 24 of the Income-tax Act, 1961	2,28,000
Less: - Interest paid on loan	35,000
Income from House Property	4,97,000

3. (b)

Computation of business income of T and U & Co.		
Particulars	₹	₹
Net profit as per Profit and Loss account		2,87,000
Add: Expenses not allowed		
General expenses of Rs. 40,000 without deduction of TDS (30% disallowed)	12,000	
Interest to partners (Disallowed as it is not authorised by partnership deed)	3,00,000	
Depreciation debited to Profit and Loss account	42,000	
Salary paid to partner debited to Profit and Loss account	6,40,000	
		9,94,000
		12,81,000
Less:		
Depreciation as per Income-tax Rules	54,000	
Unabsorbed Depreciation	40,000	
Income taxable under the head "House property"	3,60,000	
		4,54,000
Book-profit for the calculation of salary to partner		8,27,000
Salary allowable (minimum of the following):		
Actual salary	6,40,000	
Maximum allowed: (₹3,00,000 @90%) + (₹5,27,000 @60%)	5,86,200	
Allowed amount of salary to partners		5,86,200
Business income		2,40,800
Less: Brought forward business loss		20,000
Income under the head "Profits and gains of Business or profession"		2,20,800

4. (a)

Computation of capital gain in the hands of Mrs Parul for the Assessment Year 2024-25

	₹	₹
Actual sale consideration	86,00,000	
Value adopted for stamp duty	80,00,000	
Value adopted for stamp duty		86,00,000
Less: - Brokerage paid on transfer		86,000
Net sale consideration		85,14,000
Less: - Indexed cost of acquisition		3,13,770
Long term capital gain		82,00,230
Less: - Exemption under section 54EC (But restricted to ₹ 50,00,000)		50,00,000
Taxable Long term capital gain		32,00,230

4. (b)

Computation of income from other sources in the hands of Mr. Ajit for the AY 2024-25

Particulars	₹	₹
Amount received from evaluation of answer books of professional examinations	70,000	
Less: Expenses	1,200	
Net income		68,800
Interest on income-tax refund		7,000
Cash gift received from his friend on his marriage anniversary Gift received on marriage is exempt but on anniversary is taxable since it is more than Rs 50,000, entire amount is taxable		76,000
Amount received from his son, Mr. Abhijit		Nil
Amount received from letting out of residential house property		Nil
Dividend received (gross) from listed Indian companies	65,000	
Less: Interest maximum allowed is 20% of dividend amount	13,000	
		52,000
Income from other sources		2,03,800

5. (a)

Computation of total income of Mr Sumeet for the AY 2024-25

Particulars	₹	₹
Income from salary		10,00,000
Income from house property		
Less: Loss from self-occupied – not allowed to be set off against income from any other head under default tax regime	3,40,000	
Income from Business/ profession		
Income from speculative business of shares (Since no delivery is taken)	4,50,000	
Less: Loss from other speculative business	4,50,000	
Capital Gains		
Long term capital gains	1,30,000	
Less: Short term capital loss on sale of depreciable asset	1,30,000	
Other Sources		
Lottery income		55,000
Total income		10,55,000
Losses to be carried forward		
(i) Loss from other speculative business upto AY 2028-29 (4 AYs)		8,60,000
(ii) Short term capital loss upto AY 2032-33 (8 AYs)		2,30,000
(iii) Brought forward business loss up to AY 2029-30 (8 AYs)		33,000
(iv) House property loss – cannot be carried forward under default tax regime.		Nil

Alternative

Income from the business of buying and selling shares of listed companies (without delivery of shares) is not a speculation business [proviso to section 43(5)]. Therefore, a student may treat ₹ 4,50,000 as regular business income and set off brought forward business loss of ₹ 33,000 (of AY 2021-22). In such case, loss from other speculative business ₹ 13,10,000 is eligible for carry forward without any reduction or set off. The brought forward business loss of AY 2021-22 ₹ 33,000 is fully set off against ₹ 4,50,000 being income from business (non- speculative). In such case, the brought forward business loss since fully set off has no amount to be carried forward. Taking note of these, this alternative answer is presented.

Computation of total income of Mr Sumeet for the AY 2024-25

Particulars	₹	₹
Income from salary		10,00,000
Income from house property		
Less: Loss from self-occupied – not allowed to be set off against income from any other head under default tax regime	3,40,000	
Income from Business/ profession		
Income from buying and selling shares – not speculation business.	4,50,000	
Less: Brought forward business loss of AY 2021-22	33,000	
Income from Business		4,17,000
Capital Gains		
Long term capital gains	1,30,000	
Less: Short term capital loss on sale of depreciable asset	1,30,000	
		Nil
Other Sources		
Lottery income		55,000
Total income		14,72,000
Losses to be carried forward		
(i) Loss from other speculative business up to AY 2028-29 (4 AYs)		13,10,000
(ii) Short term capital loss upto AY 2032-33 (8 AYs)		2,30,000
(iii) Brought forward business loss – set off fully		Nil
(iv) House property loss – cannot be carried forward under default tax regime.		Nil

5. (b)**Computation of total income of Mr Ram for the for the Assessment Year 2024-25**

		Regular provision		Section 115 BAC	
		₹		₹	
(i)	Income from House Property (let out)				
	Rent Received	7,80,000		7,80,000	
	Less: - Standard deduction under section 24	2,34,000		2,34,000	
	Less: - Interest on loan	2,10,000		2,10,000	
			3,36,000		3,36,000
	Income from House Property (Self-Occupied)				
	Rent Received	Nil		Nil	
	Less: - Interest on loan	2,00,000	(2,00,000)	Nil	Nil
	Income from House Property		1,36,000		3,36,000
(ii)	Income from Business				
	Income from Ram Enterprises (computed)		9,60,000		9,60,000
	Gross total income		10,96,000		12,96,000
	Less: - Deductions under Chapter VI-A				
	Deduction under section 80C				
	Housing loan principal repaid		1,50,000		Not eligible
	Total Taxable Income		9,46,000		12,96,000

	Tax liability		1,01,700		1,09,200
	Add: Health & Education cess @ 4%		4,068		4,368
	Tax and cess payable		1,05,768		1,13,568
In the instant case, tax liability under default tax regime under section 115BAC is higher, hence it is advisable to Mr Ram should opt <u>out of</u> section 115BAC (or opt old regime).					

6. (a)

Concept and features of indirect taxation

- (i) **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.
- (ii) **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 the consumers of such goods and services.
- (iii) **Inflationary in nature** – Cost of goods and services increases due to levy of indirect taxes thus, indirect taxes promote inflation.
- (iv) **Social welfare** – It is a useful tool to promote social welfare by checking the consumption of harmful goods or sin goods through higher rate of tax.
- (v) **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 comparison to direct tax.
- (vi) **Regressive in nature** – All persons (rich or poor) will bear equal wrath of tax on goods or services 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.
- (vii) **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 goods, the ultimate payer (i.e, the buyer) pay without knowing that he is paying any tax to the Government.

6. (b)

Members of the GST Council

The GST Council shall consist of the following members, namely: -

- (a) The Union Finance Minister is the Chairperson;
- (b) The Union Minister of State, in-charge of Revenue of finance is the member;
- (c) The Minister In-charge of finance or taxation or any other Minister nominated by each State Government are the members.

The recommendations that can be made by GST Council are as under: -

- (i) the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax;
- (ii) the goods and services that may be subjected to, or exempted from the goods and services tax;
- (iii) model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply;
- (iv) the threshold limit of turnover below which goods and services may be exempted from goods and services tax;
- (v) the rates including floor rates with bands of goods and services tax;
- (vi) any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;
- (vii) special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and any other matter relating to the goods and services tax, as the Council may decide.

7. (a)**Reverse charge and forward charge****(i) General statement:**

As per section 9(3) of the CGST Act, 2017, if services are supplied by a recovery agent to a banking company or financial institution or a non-banking financial company (NBFC) located in a taxable territory, then GST is payable on reverse charge basis by recipient.

Factual answer:

In the first case, the recipient i.e., Money Save Bank shall be liable to pay GST under reverse charge for services provided by Ms Sakshi as a recovery agent.

In the second case, services are being supplied by a recovery agent to a car dealer and not to a banking company or financial institution or a non-banking financial company (NBFC).

Thus, service provider i.e. recovery agent Sakshi is liable to pay GST under forward charge.

- (ii)** As per section 9(3) of the CGST Act, 2017, if services are provided by an individual Direct Selling Agent (DSA) other than body corporate, partnership or limited liability partnership firm to any banking company or non-banking financial company (NBFC) located in a taxable territory, then the GST is payable on reverse charge basis by recipient.

In the given case, Prakash is an individual providing services as direct selling agent to a banking company i.e., Dhanwan Bank. Therefore, the recipient i.e., Dhanwan Bank is liable to pay GST under reverse charge.

7. (b)**Computation of Value of Taxable Supply of services for Self & Family Life Insurance Company**

	₹
Premium from new policy subscribers	12,50,000
Renewal premium	9,37,500
Premium for Only Risk Cover policies	30,00,000
Single premium on annuity policies	9,50,000
Life micro-insurance policies [Exempt vide Entry 36 of Notification no.12/2017-CT (Rule)]	Nil
Total value of taxable supply of service	61,37,500
Explanation for treatment of various items:	
As per rule 32(4) of the CGST Rules, 2017, the value of supply of services in relation to life insurance business, when the amount allocated for investment/savings on behalf of the policy holder is not intimated to the policy holder at the time of supply of service, is-	
(i) in case of single premium annuity policies, 10% of single premium charged from the policy holder;	
(ii) in all other cases, 25% of the premium charged from the policy holder in the first year and	
(iii) 12.5% of the premium charged from the policy holder in subsequent years;	
(iv) in case the entire premium paid by the policy holder is only towards the risk cover in life insurance, the premium so paid (i.e. 100%).	

8. (a)

Computation of Input tax credit available with Shyam Ltd for the month of May, 2024

SN	Particulars	₹
(i)	Routine maintenance of cars manufactured by Shyam Ltd. (ITC is eligible since such services are used in course or furtherance of business)	40,500
(ii)	Capital goods (out of five items, invoice for one item was missing and GST paid on that item was ₹ 2,500 (₹ 45,000 - ₹ 2,500) (ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC)	42,500
(iii)	Inputs consisting of four lots, out of which three lots were received during the month (When inputs are received in lots/instalment, ITC can be availed only on receipt of last lot/instalment)	Nil
(iv)	Travel benefits extended to employees on vacation under statutory obligation (ITC shall be allowed on travel benefits extended to employees on vacation since it is obligatory for an employer to provide the same to its employees under any law for the time being in force).	7,500
(v)	Machinery purchased in respect of which depreciation is claimed under Income-tax Act 1961 on the tax component (ITC is not available since depreciation has been claimed on the GST/tax component)	Nil
(vi)	Repair services for office building, cost of repairs is charged to Profit and Loss Account (Repairs are revenue in nature, hence, input tax credit shall be available)	48,000
Input tax credit (ITC) available		1,38,500

8. (b)

Computation of the total customs duties and integrated tax payable by Palak Trade Ltd

Price of the Machine	UK Pound 10,000
Royalties relating to imported goods payable by buyer as a condition of sale	UK Pound 500
Design and engineering charges paid to Consultancy firm in UK	UK Pound 300
FOB value	UK Pound 10,800
Cost of machine @ ₹ 104 per UK Pound	₹ 11,23,200
Rate of exchange notified by CBIC on the date of presentation of bill of entry is considered.	
Add: -Air freight, loading, unloading & handling charges associated with the delivery of the imported goods to the place of importation	₹ 2,08,000
Add: - Insurance charges (If insurance charges are not ascertainable, the same shall be added @ 1.125% of FOB value of the goods)	₹ 12,636
CIF Value/Assessable value	₹ 13,43,836
Basic custom duty @ 20%	₹ 2,68,767.20
Add: - Social Welfare Surcharge (SWS)	₹ 26,876.72
Total for Integrated Tax leviable under section 3 (7)	₹16,39,479.92
Add: - Integrated tax	₹ 1,96,737.59
Total Customs Duty Payable	₹ 2,95,643.92