PAPER – 7 : DIRECT AND INDIRECT TAXATION

SUGGESTED ANSWERS

SECTION-A

1.

(i) (C)

(ii) (C)

(iii) (C)

(iv) (D)

(v) (A)

(vi) (B)

(vii) (D)

(viii) (B)

(ix) (D)

(x) (B)

(xi) (D)

(xii) (C)

(xiii) (A/B/C/D)

(xiv) (C)

(xv) (D)

SECTION – B

2. (a):

Computation of Gross Total Income of Mr. Naresh for the AY 2025-26

		₹	₹
		ROR*	**NR****
i)	Rent received in a bank account in Germany in respect of a house property situated in Germany. Taxable only in the hands of ROR.	2,40,000	Nil / --
ii)	Income from a business in India controlled from Germany received in India Since it is received in India, it will be taxable in all the cases	5,00,000	5,00,000
iii)	Agricultural income from a land situated in Sri Lanka received in Sri Lanka Taxable only in the hands of ROR	6,00,000	Nil / ---
iv)	Interest from savings bank account in Germany Taxable only in the hands of ROR	15,000	Nil / ---
v)	Royalty received from BHI Ltd., an Indian company for a product design to be used in Italy received in Germany bank account	25,00,000	Nil / ---
vi)	Capital gains on the sale of shares listed in a recognised stock exchange in India.	5,40,000	5,40,000
	Gross total income	43,95,000	10,40,000

* Resident and Ordinarily Resident.

** Non-Resident

2. (b):

Computation of income from salary in the hands of Mr. Suresh for the AY 2025-26

Particulars	₹	₹
Basic Salary (₹ 70,000 x 9 months)	6,30,000	
Basic salary (₹ 85,000 X 3 months)	2,55,000	
		8,85,000
DA – 50% of Basic pay		4,42,500
Bonus – one month's basic salary (Nov.2024 salary)		70,000
Contribution to Recognised Provident Fund – 19% of basic salary. (19% of ₹ 8,85,000)	1,68,150	
Less: Exempt up to 12% of salary (12% of ₹ 8,85,000).	1,06,200	
		61,950
Profession tax paid by the employer		5,000
Facility of laptop – exempt perquisite		Nil / ---
Leave travel concession – fully taxable since the employee has not opted out of the new regime		80,000
Gross salary		15,44,450
Less: Standard deduction	75,000	
Professional tax - (deduction not allowed in new scheme)	Nil / ---	
		75,000
Taxable salary		14,69,450

3. (a):

Income from House Property chargeable in the hands of Mrs Sejal for AY 2025-26

Particulars		(₹)
Expected rent (Municipal value or fair rent, whichever is higher ₹ 1,80,000 or ₹ 2,36,000 i.e., ₹ 2,36,000)		2,20,000
But restricted to standard rent i.e., ₹ 2,20,000		
Actual rent (₹ 22,500 x 12)		2,70,000
Gross Annual Value (GAV)		2,70,000
(Expected rent or Rent received, whichever is higher ₹ 2,20,000 or ₹ 2,70,000 i.e., ₹ 2,70,000)		
Less: Municipal taxes @ 10% of municipal value (₹ 1,80,000 x 10%)		18,000
Net Annual Value (NAV)		2,52,000
Less:		
Deduction under section 24 @ 30% of NAV	75,600	
Interest on loan taken for construction of house property		
Interest for the year i.e., 1st April, 2024 to 31st March, 2025 (₹ 5,00,000 x 15%)	75,000	
Pre-construction period interest ₹ 1,93,750 (₹ 5,00,000 x 15% x 31 months / 12 months) (From 1st September, 2017 to 31st March, 2020 = 31months)		
Pre-construction period interest to be allowed in 5 equal annual instalments from the year of completion of construction i.e., from previous year 2020-2021 till previous year 2024-2025. (₹1,93,750 / 5)	38,750	
		1,89,350
Income from house property		62,650

3. (b):

Computation of income from business in the hands of Ratan for AY 2025-26

Since Mr. Ratan did not own more than 10 vehicles at any time during the financial year 2024-25, he is eligible to opt for presumptive taxation scheme under section 44AE.

Accordingly, the presumptive income shall be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for every month or part of a month in respect of a heavy goods vehicle, and

₹7,500 per month or part of a month in respect of a light goods vehicle.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kgs.

Vehicle No.	No of months of ownership	Gross weight (in kgs)	Presumptive Income per month	Total Presumptive income for the year	
			₹	₹	
1	12	8,500	7,500	7,500 X 12 =	90,000
2	12	13,000	13,000	13,000 X 12 =	1,56,000
3	1	15,000	15,000	15,000 X 1 =	15,000
4	12	10,000	7,500	7,500 X 12 =	90,000
5	11	7,500	7,500	7,500 X 11 =	82,500
6	10	8,500	7,500	7,500 X 10 =	75,000
Total presumptive income as per section 44AE					5,08,500

4. (a):

Computation of capital gain in hands of Mr. Kumar for the AY 2025-26
(under old regime)

Particulars	₹	₹
Sale Consideration		
Actual sale consideration ₹ 28,00,000		
Value adopted for stamp duty ₹ 28,50,000		
Value adopted for stamp duty does not exceed 110% of actual consideration (i.e. ₹ 30,80,000) so actual consideration considered	28,00,000	
Less: Expenses on transfer @ 1%. On ₹ 28,00,000 @ 1%	28,000	
Net sale consideration		27,72,000
Less: i) Cost of acquisition ₹ 3,35,000. FMV as on 01.04.2001 ₹ 3,25,000. Whichever is higher is adopted.	3,35,000	
Add: Cost of improvement	2,50,000	
		5,85,000
Long-term capital gain		21,87,000
Less: Exemption u/s 54		
Cost of acquisition of new house including commission ₹ 35,50,000 (₹ 35,00,000 + Commission ₹ 50,000). But limited to the amount of capital gain		21,87,000
Long-term capital gain		Nil
Compensation for loss of diamond ring due to theft: Since theft is outside the scope of section 45(1A), insurance claim received for theft is not a consideration for transfer or covered by section 45(1A). Hence, not taxable.		Nil / ---

4. (b):

Computation of income chargeable to tax under the head 'Income from Other sources' in the hands of Mr Manoj for the assessment year 2025-26

			(₹)
(i)	Director sitting fees from MNQ Ltd		84,000
(ii)	Gold coins received from a family friend on the occasion of marriage anniversary.		1,25,000
	[Taxable under section 56(2)(x), as the fair market value of such coins exceeds ₹ 50,000]		
(iii)	Interest on debentures of a company (listed in a Recognized Stock Exchange) (Net of taxes ₹ 14400).		16,000
	(Tax is required to be deducted @ 10% i.e., gross amount of interest on debentures ₹14,400 x 100 ÷ 90 = ₹ 16,000)		
(iv)	Interest on Post Office Saving Bank Account		Nil
	[Interest on Post Office Saving Bank Account is exempt u/s 10(15) (i) of the Income-tax Act, 1961 up to₹ 3,500]		
(v)	Interest received on loan given to a relative		6,200
(vi)	Rent received from sub-letting of a leasehold property Less: - Lease rent paid	1,80,000 1,20,000	
			60,000
(vii)	Purchased a piece of land for ₹ 3,90,000. Stamp duty value ₹ 7,50,000.		3,60,000
	[The difference between stamp duty value of the land and actual consideration, exceeds ₹50,000 and stamp duty value is more than 110% of actual consideration. Hence as per the provision of section 56(2)(x), stamp duty value less consideration paid, shall be taxable] [₹ 7,50,000 – ₹ 3,90,000]		
Income chargeable to tax under the head Income from other sources			6,51,200

5. (a):

Computation of Gross total income of Rijwan for AY 2025-26 [New Regime]

Particulars	₹	₹
Salary Income (Computed)		6,00,000
Income from House property		
Income from House property	1,15,000	
Less: B/f Loss from house property Loss under the head 'Income from house property' can be carried forward even when a belated return is filed [as sec. 80 and 139(3) are not applicable to sec. 71B].	1,15,000	
Income under the head 'house property'		Nil
<u>Profits & Gains of Business & Profession</u>		
Income from speculation business	120000	
Less: Loss from footwear business	120000	
Income under the head 'business or profession'		Nil
Business loss can be set off against other incomes except salary income (₹ 180000-120000 already set off)	60,000	
<u>Income from Other Sources</u>		
Income from owning and maintaining race horses	1,00,000	

Income from card games	25,000	
	1,25,000	
Less: Set off of business loss against income from owning and maintaining race horses	60,000	
		65,000
Loss from betting		Nil
Gross Total Income		6,65,000
Carry forward of loss:		
Loss from betting is neither eligible for set off nor for carry forward.		
Loss from house property ₹ 15,000 can be carried forward for 1 more year i.e. AY 2026-2027.		

5. (b):

Computation of total income of Mrs Kajal for the Assessment Year 2025-26

	Regular (old scheme) provision (₹)		Default regime under section 115BAC (₹)	
Income from salary				
Income from salary before standard deduction		9,20,000		9,20,000
Less: - Standard deduction		50,000		75,000
		8,70,000		8,45,000
Income from other sources				
Interest from Government securities		5,000		5,000
Gross total income		8,75,000		8,50,000
Less: - Deductions under Chapter VI-A				
Deduction under section 80C				
Deposit in Public Provident Fund (restricted to ₹ 1,50,000)	1,50,000		Not eligible	
Deduction under section 80D				
Medical insurance premium (₹ 20,000 + spouse ₹ 10,000 = ₹ 30,000 (maximum deduction ₹ 25,000).	25,000		Not eligible	
Deduction under section 80G				
Donation towards Prime Minister's Drought Relief Fund (50% of ₹ 10,000)	5,000		Not eligible	
Total deductions under Chapter VIA		1,80,000		Nil
Total income		6,95,000		8,50,000
Tax liability				
Tax on total income of ₹ 6,95,000 (₹12,500+₹ 39,000)		51,500		
Tax on total taxable income of ₹ 8,50,000 (₹ 20,000 + ₹ 15,000)				35,000
Add: Health& Education cess @4%		2,060		1,400
Total tax liability		53,560		36,400
In the instant case, tax liability under default tax regime under section 115BAC is lower, hence it is advisable to opt for provision of section 115BAC.				

6. (a):

Concept and features of Indirect Taxes

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 of services.

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.

Inflationary in nature:

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

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.

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.

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 services of mass consumption. Thus, it may increase the disparities between rich and poor.

No pinch:

Seller (the person on whom 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) pays it without knowing that he is paying any tax to the Government.

6. (b):

Taxes subsumed or not subsumed in the GST regime

1. **Following are the Centre taxes that were subsumed in the GST regime: -**

a. Central Excise duty
b. Duties of Excise (Medicinal and Toilet Preparations)
c. Additional Duties of Excise (Goods of Special Importance)
d. Additional Duties of Customs (commonly known as CVD)
e. Special Additional Duty of Customs (SAD)
f. Service Tax
g. Central Surcharges and Cesses so far as they relate to supply of goods and services

2. **Following are the State taxes that were subsumed in the GST regime: -**

a. State VAT
b. Central Sales Tax
c. Luxury Tax
d. Entry Tax (all forms)
e. Entertainment Tax (except when levied by the local bodies)
f. Taxes on advertisements
g. Purchase Tax
h. Taxes on lotteries, betting and gambling (any one)
i. State Surcharges and Cesses so far as they relate to supply of goods and services

3. Following are the taxes that were not subsumed in the GST regime: -

a. Basic Customs Duty
b. Research and Development Cess
c. Export duty
d. Anti-Dumping Duty
e. Safeguard Duty
f. State Excise Duty
g. Stamp Duty
h. Profession Tax
i. Motor Vehicle Tax

7. (a):

Computation of aggregate turnover of Mr. Jitesh for the FY 2024-25

Particulars	₹
Value of taxable outward supplies – Intra state	55,00,000
Value of taxable outward supplies – Inter-state	16,00,000
Value of exempt supplies	74,00,000
Amount received as interest on loans and advances not included for Composition scheme purpose	NIL / ---
Value of inward supplies on which tax is payable by him under reverse charge – not included	Nil / ---
Value of exports	6,50,000
Aggregate Turnover	1,51,50,000
Since his aggregate turnover exceeds ₹1.50 crores and also engaged in Inter-State supply, he is not eligible to opt for composition scheme.	

7. (b):

Computation of value of taxable supply made by Radhe Shyam & Sons

Particulars	(₹)
(i) List price of the goods (exclusive of GST and discounts)	8,50,000
(ii) Subsidy received from Central Government, directly linked to price	Nil
Reason: Since subsidy is received from Central Government the same shall not be included in value of supply.	
(iii) Subsidy received from an NGO (non-profit making organisation), directly linked to price.	40,000
Reason: Since subsidy is received from a non-government body and directly linked to the price, the same shall be included in value of supply.	
(iv) Late fees for delayed payment.	Nil
Reason: Not includible since waived off.	
(v) Post-delivery inspection charges.	Nil
Reason: Anything incurred by recipient of supply after supply of goods is not includible in value.	
(vi) Weighment charges paid to Kartik Ltd by Ganesh Ltd on behalf of Radhe Shyam& Sons.	20,000
Reason: Any amount that the supplier is liable to pay in relation to supply but has been incurred by the recipient, is includible in the value of supply.	
	9,10,000
(vii) Less: Discount of 2% on list price of goods i.e., 2% of ₹ 8,50,000	17,000
Reason: Since discount is given at the time of supply and recorded in the invoice, the value of the supply shall not include such discount.	
Value of taxable supply	8,93,000

8. (a):

(i) Eligibility of QRMP Scheme

In Case of New Registration:

A newly registered taxpayer whose aggregate turnover is up to ₹5 crores can opt for the QRMP scheme based on the following conditions:

If the registration is granted on any date during the first month of a quarter, the registered person will be able to opt for the QRMP scheme from the beginning itself.

If the registration is granted on any of the dates during the latter two months of a quarter, then the registered person will be able to opt for the QRMP scheme only from the next quarter onwards.

In Case of Others:

A registered person can opt-in for any quarter from the first day of the second month of the preceding quarter to the last day of the first month of the quarter.

However, there is no requirement to opt for the Scheme each quarter separately. Once the scheme is exercised, it would be valid for future tax periods also.

The option to avail the QRMP Scheme is GSTIN wise.

(ii) Therefore, some GSTINs for a PAN might be eligible for the QRMP Scheme, and the remaining GSTINs might not be able to opt for the Scheme.

8. (b):

Applicability of Custom Valuation Rules in Import of Machine by Air from USA.

(i) **Freight charges:** -Where goods are imported by air, then cost of transport (whether ascertained or not) shall be restricted to 20% of FOB value of goods.

(ii) **Insurance charges:** -The actual cost of insurance to the place of importation

OR

Where the insurance charges are not ascertained then 1.125% of FOB value of goods.

(iii) **Transshipment charges from one airport of India to another:** -Transshipment charges from one airport of India to another airport in India is not included in the assessable value

(iv) **Applicable rate of exchange for conversion purpose:** - Rate of exchange notified by CBIC on the date of presentation of bill of entry is considered

(v) **Applicable rate of basic customs duty:** - Rate of basic customs duty shall be: -

The rate in force on the date of presentation of bill of entry

OR

The rate in force on the date of arrival of aircraft,

Whichever is later.

Alternate view:

The rate in force on the date of presentation of bill of entry or if bill of entry presented before the arrival of the aircraft, the bill of entry assumed to be presented on the date of arrival of the aircraft and accordingly rate applicable on the date of arrival of aircraft will be considered.