



DIRECT AND INDIRECT TAXATION

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

Section - A (Compulsory)

1. Choose the correct alternative: [15 × 2 = 30]

(i) Dividend received from a company engaged in agricultural operation is \_\_\_\_\_:

- a. Agricultural Income
- b. Business Income
- c. Partly agricultural income and partly business income
- d. Income from other sources

(ii) The quantum of Rebate u/s 87A applicable to a resident individual, is the lower of 100% of tax liability or ₹ \_\_\_\_\_.

- a. 10,000
- b. 7,500
- c. 12,500
- d. 15,000

(iii) Indexed cost of any improvement is an amount, which bears to the \_\_\_\_\_ in the same proportion as Cost Inflation Index for the year in which the asset is transferred bears to the Cost Inflation Index for the year in which the improvement to the asset took place.

- a. cost of acquisition
- b. cost of improvement
- c. sale consideration
- d. expenses on transfer

(iv) Deduction u/s \_\_\_\_\_ of the Income-tax Act is applicable to an individual in respect of repayment of loan for higher education.

- a. 80DD
- b. 80DDB
- c. 80E
- d. 80EE



DIRECT AND INDIRECT TAXATION

- (v) As per sec. 193 of the Income-tax Act, any person responsible for payment of interest on securities (other than interest on Government securities and certain specified securities) to any resident person, the rate of TDS will be applicable @ \_\_\_\_\_%.
- 10% (with surcharge, health and education cess)
  - 10% (no surcharge, health and education cess)
  - 20% (with surcharge, health and education cess)
  - 20% (no surcharge, health and education cess)
- (vi) In case of loss, a partnership firm may claim deduction in respect of remuneration to partner to the extent of:
- ₹ 1,50,000/-
  - ₹ 1,50,000/- or actual remuneration, whichever is lower
  - ₹ 1,50,000/- or 90% of book profit, whichever is lower
  - Nil
- (vii) Mr. A has three minor children deriving interest from bank deposits to the tune of ₹ 2,000, ₹ 1,300, ₹ 1,600 respectively. Exemption available under section 10(32) of the Income Tax is –
- ₹ 4,900
  - ₹ 4,300
  - ₹ 4,500
  - ₹ 5,000
- (viii) If an assessee fails to file return within the time limit allowed u/s 139(1) or within the time allowed under a notice issued u/s 142(1), he can file a belated return, on or before \_\_\_\_\_ of the relevant assessment year or before the completion of assessment (u/s 144), whichever is earlier.
- 30<sup>th</sup> November
  - 31<sup>st</sup> March
  - 31<sup>st</sup> December
  - 31<sup>st</sup> October
- (ix) \_\_\_\_\_ is combination of more than one individual supplies of goods or services or any combination thereof made in conjunction with each other for a single price, which can ordinarily be supplied separately.
- Composite supply
  - Principal supply
  - Mixed supply
  - None of the above.



DIRECT AND INDIRECT TAXATION

- (x) Zero-rated supply is meant for export or supply of goods or services or both for authorized operations to Special Economic Zone developer or a \_\_\_\_\_.
- Special Economic Zone unit
  - EOU
  - STP
  - All of the above.
- (xi) Indirect taxes are \_\_\_\_\_ in nature.
- Progressive
  - Regressive
  - Partly progressive and partly regressive
  - None of the above.
- (xii) The first 2 digits of the GSTIN is the \_\_\_\_\_.
- checksum number
  - PAN of the legal entity
  - entity code
  - State code.
- (xiii) Which of the following activities or transactions shall be treated neither as supply of goods nor a supply of services?
- Sale of land and building
  - Lease of land
  - Rent of building
  - All of the above
- (xiv) \_\_\_\_\_ means property abandoned at sea without hope of recovering.
- Wreck
  - Jetsam
  - Flotsam
  - Derelict
- (xv) The purpose of \_\_\_\_\_ is to rectify the trade distortive effect of dumping and re-establish fair trade.
- anti-dumping duty
  - safeguard duty
  - social welfare surcharge
  - protective duty



DIRECT AND INDIRECT TAXATION

**Answer:**

- (i) d
- (ii) c
- (iii) b
- (iv) c
- (v) b
- (vi) b
- (vii) b
- (viii) c
- (ix) c
- (x) a
- (xi) b
- (xii) d
- (xiii) a
- (xiv) d
- (xv) a

**Section - B**

**(Answer any five questions out of seven questions given. Each question carries 14 marks.)**

2. (a) **Discuss the taxability of the following income:**
- (i) **A is employed in an agricultural farm and entrusted with tilling of land, his remuneration being 50% of the net profits earned by the farm.**
  - (ii) **C receives a dividend of ₹ 12,000 from a company whose entire income is derived from agricultural operations only.**
  - (iii) **F receives ₹ 600 on account of interest on loan on the mortgage of land which is used for agricultural purposes.**
  - (iv) **G earns an income of ₹ 1,200 from lease of land for grazing of cattle required for agricultural operations.**
  - (v) **Income from sale of trees of forest which are of spontaneous growth and in relation to which forestry operations alone are performed or Income from sale of wild grass of spontaneous growth.**
  - (vi) **Income from poultry farming**
  - (vii) **Income of ₹ 50,000 from agricultural land, the land is situated in Bangladesh.**
- [7]



## DIRECT AND INDIRECT TAXATION

(b) Following are the particulars of income of Mrs. S. Choudhury for the Previous Year 2022-23:

1. Basic salary @ ₹ 15,000 per month.
2. Dearness Allowance @ 60% of salary.
3. Medical Allowance @ 600 per month (Actual expenditure ₹ 5,000).
4. House Rent Allowance received @ ₹ 6,000 per month and she pays rent of ₹7,200 per month for her house in Durgapur.
5. City compensatory allowance ₹ 1,500 per month.
6. She owns a car which she is using for official purposes. Her employer reimburses her @ ₹ 3,000 per month.
7. She is contributing ₹ 2,100 per month towards a recognized provident fund. The employer is also contributing the same amount. Interest credited to R.P.F @ 11% ₹ 2,200.
8. She paid ₹ 1,800 as professional tax during the year.

Compute income from salary of Mrs. Choudhury for the assessment year 2023-24. [7]

**Answer:**

- (a) (i) Since Mr. A is an employee of the concern, therefore his income shall be taxable under the head 'Salaries' and shall not be treated as agricultural income. However, if Mr. A is a partner of the concern then such income shall be treated as agricultural income.
- (ii) Dividend received from a company (engaged in agricultural business) cannot be treated as agricultural income. Such dividend shall be taxable under the head "Income from other sources".
- (iii) Interest on loan on the mortgage of land used for agricultural purpose is not an agro-income.
- (iv) Any rent derived from land used for grazing of cattle, used for agricultural operation, is an agro-income.
- (v) Income from sale of trees, grass grown spontaneously and without any human effort is non-agricultural income.
- (vi) Income from Poultry farming is not an agricultural income because such income is not derived from land.
- (vii) Since the land is situated outside India, hence income is not considered as agricultural income.

**INTERMEDIAR EXAMINATION****SET - 2****MODEL ANSWERS****TERM – DECEMBER 2023****PAPER – 7****SYLLABUS 2022****DIRECT AND INDIRECT TAXATION****(b) Computation of Taxable Salary of Mrs. S Choudhury for the A.Y.2023-24:**

Particulars	Working	Details (₹)	Amount (₹)	Amount (₹)
Salaries				
Basic				1,80,000
Allowances				
Dearness allowance	60% of basic		1,08,000	
Medical Allowance			7,200	
City compensatory allowance			18,000	
House rent allowance		72,000		
Less : Exempted u/s 10(13A)				
Minimum of the following :				
A. Actual HRA	72,000			
B. 40% of (Basic + DA)	1,15,200			
C. Rent paid – 10% (Basic + DA)	57,600	57,600	14,400	1,47,600
Perquisites u/s 17(2):				
Car facility			-	-
Employer's contribution to RPF		25,200		
Less : Exempted u/s 10(12)	12% of (Basic + DA)	25,200		
Interest on RPF		2,200		
Less : Exempted	Up to 9%	1,800	400	400
Gross taxable salary		3,27,600		
Less : Deduction u/s:				
16(ia) Standard Deduction			50,000	
16(iii) Professional tax			1,800	51,800
Taxable Salary				2,75,800



## DIRECT AND INDIRECT TAXATION

3. (a) Mr. Rajesh owns two house properties both of which are let out. Compute his income from the following details: (Amount in ₹)

Particulars	H1	H2
Situated at	Gaya	Mumbai
Gross Municipal value	1,00,000	2,00,000
Fair rent	95,000	2,10,000
Standard rent	90,000	2,00,000
Actual rent receivable	1,00,000	1,80,000
Unrealised rent of current year	8,000	2,000
Municipal tax	10%	1,000
Fire insurance	2,000	1,200
Repairs	Nil	2,000
Interest on loan for construction (@ 12%)	10,000	Nil

**Other Information:**

1. Loan taken for construction is still unpaid.
2. Municipal tax of H1 is still unpaid, while, that of H2 is half paid by tenant.

[7]

- (b) M/s Sidhant & Co., a sole proprietary concern is converted into a company, Sidhant Co. Ltd. with effect from November 29, 2022. The written down value of assets as on April 1, 2022 is as follows:

Items	Rate of Depreciation	WDV as on 1 April, 2022
Building	10%	₹ 3,50,000
Furniture	10%	₹ 50,000
Plant & Machinery	15%	₹ 2,00,000

Further, on 15-10-2022, M/s Sidhant & Co. purchased a plant for ₹ 1,00,000 (rate of depreciation 15%). After conversion, the company added another plant worth ₹50,000 (rate of depreciation 15%). Examine the amount of depreciation available to (i) M/s Sidhant & Co. and (ii) Sidhant Co. Ltd. for the A.Y. 2023-24.

[7]



## DIRECT AND INDIRECT TAXATION

**Answer:**

(a) Computation of income from house property of Mr. Rajesh for the A.Y. 2023-24:

Particulars	Details (₹)	Amount (₹)	Amount (₹)
H1: Let out			
Gross Annual Value#		92,000	
Less : Municipal tax		Nil	
Net Annual Value		92,000	
Less : Deduction u/s 24:			
A. Standard deduction (30% of NAV)	27,600		
B. Interest on loan	10,000	37,600	54,400
H2: Let out			
Gross Annual Value#		2,00,000	
Less : Municipal tax		500	
Net Annual Value		1,99,500	
Less : Deduction u/s 24			
A. Standard deduction (30% of NAV)	59,850		
B. Interest on loan	Nil	59,850	1,39,650
Income from House Property			1,94,050

Note: Unpaid municipal tax and municipal tax paid by tenant is not allowed.

#. Computation of Gross Annual Value:

Particulars	Details	H1	H2
Reasonable Expected Rent	Higher of GMV or FR subject to SR	90,000	2,00,000
Actual Rent Receivable – Unrealised Rent		92,000	1,78,000
Gross Annual Value	Higher of above	92,000	2,00,000

(b) Computation of depreciation on assets if there were no succession:

Particulars	Building (₹)	Furniture (₹)	Plant & Machinery (₹)
Rate of depreciation	10%	10%	15%
W.D.V. as on 1/4/2022	3,50,000	50,000	2,00,000
Add: Purchase during the year	Nil	Nil	1,00,000*
	3,50,000	50,000	3,00,000

**INTERMEDIAR EXAMINATION****SET - 2****MODEL ANSWERS****TERM – DECEMBER 2023****PAPER – 7****SYLLABUS 2022****DIRECT AND INDIRECT TAXATION**

Less: Sales during the year	Nil	Nil	Nil
	3,50,000	50,000	3,00,000
Depreciation	35,000	5,000	37,500

It is assumed that the assessee is not entitled for additional depreciation.

\* Without considering assets acquired after succession.

\*\*  $[(\text{₹}2,00,000 * 15\%) + (\text{₹}1,00,000 * 15\% * \frac{1}{2})]$

Allocation of depreciation between sole proprietary concern and the successor company:  
The depreciation is to be allocated in the ratio of number of days the assets were used by the sole proprietary concern and the successor company.

Calculation of allowable depreciation to sole proprietary concern:

Particulars	Amount (₹)
Depreciation on assets held as on 01/04/2022	
Assets are used by sole proprietary concern from 1/4/2022 to 28/11/2022 i.e. 242 days, hence depreciation shall be allowed for 242 days	
- Building (₹ 35,000 × 242/365)	23,205
- Furniture (₹ 5,000 × 242/365)	3,315
- Plant and Machinery (₹ 30,000 × 242/365)	19,890
Depreciation on newly acquired assets	
New asset has been used by it from 15/10/2022 to 28/11/2022 i.e. 45 days, hence depreciation shall be allowed for 45 days	
- Plant and Machinery (₹ 7,500 × 45/168)	2,009
Depreciation allowable u/s 32	48,419

Calculation of allowable depreciation to successor company:

Particulars	Amount (₹)
Depreciation on assets held by sole-proprietary concern as on 01/04/2022	
Asset of sole proprietary concern used by the successor company from 29/11/2022 to 31/3/2023 i.e. 123 days, hence depreciation shall be allowed for 123 days	
- Building (₹ 35,000 × 123/365)	11,795
- Furniture (₹ 5,000 × 123/365)	1,685
- Plant and Machinery (₹ 30,000 × 123/365)	10,110
Depreciation on assets acquired by sole-proprietary concern during the year	
New asset has been used by it from 29/11/2022 to 31/03/2023 i.e. 123 days, hence depreciation shall be allowed for 123 days	



## DIRECT AND INDIRECT TAXATION

- Plant and Machinery (₹ 7,500 × 123/168)	5,491
After conversion	
Depreciation in respect of plant purchased by the successor company is fully allowable in the hands of successor company [50% of 15% on ₹ 50,000].	3,750
Total depreciation	32,831

4. (a) Lucky has a house property acquired on 18/08/2009 for ₹ 6,00,000. He used the house for his own residential purpose. On 18/08/2012 he incurred capital expenditure on re-construction of house ₹ 3,00,000. On 15/05/2022, he brought office goods (inflammable) worth ₹ 1,00,000 at home to be delivered to a party staying near to his home. At the night of that day accidental fire took place and damaged the whole house property, furniture worth ₹ 5,00,000 and business stock.

Insurance claim received on 18/08/2022 –

1. for the house ₹ 1,00,000 in cash & a new house allotted to him (fair market value of which is ₹ 44,00,000 on 18/08/2022);
2. for house-hold furniture ₹ 2,00,000; and
3. for stock ₹ 80,000.

Analyse –

- Tax-treatment under the head Capital gains.
- How shall your answer differ if such compensation is received by the assessee on 15/04/2023. [7]

- (b) Compute taxable income under the head Income from other sources of Mrs. X from the following data:

Particulars	Amount (₹)
Private tuition fee received	10,000
Winning from lottery	2,000
Award from KBC (a TV show) [Gross]	3,20,000
Pension from employer of deceased husband	25,000
Interest on bank deposit	25,000
Directors fee (Gross)	5,000
Letting out of vacant land	25,000
Remuneration for checking the examination copy of employer's school	10,000

**INTERMEDIAR EXAMINATION****SET - 2****MODEL ANSWERS****TERM – DECEMBER 2023****PAPER – 7****SYLLABUS 2022****DIRECT AND INDIRECT TAXATION**

<b>Remuneration for checking the examination copy of CMA</b>	<b>10,000</b>
<b>Income tax refund</b>	<b>5,000</b>
<b>Interest on income tax refund</b>	<b>100</b>
<b>Composite rent (related expenditures are ₹ 5,000)</b>	<b>10,000</b>
<b>Rent on sub-letting of house property (rent paid to original owner ₹ 12,000)</b>	<b>20,000</b>
<b>Income tax paid</b>	<b>2,000</b>
<b>Payment made for personal expenses</b>	<b>18,000</b>
<b>Payment made to LIC as premium</b>	<b>2,000</b>

**[7]****Answer:**

- (a) As the damage occurred due to accidental fire, such case is governed by the provision of sec. 45(1A).

Computation of capital gain in the hands of Lucky for the A.Y. 2023-24

Particulars	Workings	Details (₹)	Amount (₹)
Sale consideration of house	₹ 1,00,000 + ₹ 44,00,000		45,00,000
Less: Expenses on transfer			Nil
Net sale consideration			45,00,000
Less: i) Indexed cost of acquisition	₹ 6,00,000 × 331/148	13,41,892	
ii) Indexed cost of improvement	₹ 3,00,000 × 331/200	4,96,500	18,38,392
<b>Long Term Capital Gain</b>			<b>26,61,608</b>
For Furniture: No capital gain liability arises as furniture is a personal asset of the assessee and hence not a capital asset. Compensation received on loss of furniture shall be treated as capital receipt and hence not liable to tax.			
For Stock: Compensation received on loss of stock shall be liable to tax u/s 28. In the given case, loss of ₹ 20,000 (₹ 1,00,000 – ₹ 80,000) shall be allowed under the head “Profits & gains of business or profession”.			

In case such compensation is received on 15/04/2023 then the capital gain of ₹ 26,61,608 as computed above shall be taxable in the Assessment year 2024-25.

- (b) Computation of income of Mrs. X under the head Income from other source for the A.Y. 2023-24:

Particulars	Details (₹)	Amount (₹)
Private tuition fee received		10,000
Casual income		
Winning from lottery		2,000
Award from KBC (a TV show) [Gross]		3,20,000



## DIRECT AND INDIRECT TAXATION

Pension	25,000	
Less: Standard deduction		
1) 1/3rd of amount received (i.e. ₹ 8,333)		
2) ₹ 15,000	8,333	16,667
Interest on bank deposit		25,000
Director's fee		5,000
Letting out of vacant land		25,000
Remuneration for checking the examination copy of employer school	Taxable as Salary	—
Remuneration for checking examination copy of CMA		10,000
Income tax refund	Not an income	—
Interest on income tax refund		100
Composite rent	10,000	
Less: Expenditure	5,000	5,000
Rent on sub-letting of house property	20,000	
Less: Rent paid to original owner	12,000	8,000
Income from Other Source		4,26,767

Note: Payment of income tax and personal expenses is not deductible in any case.

5. (a) P, Q and R are partners in a firm sharing profits and losses in the ratio of 1:1:2, provide the following information. Find firm's net income assuming that salary and interest are not paid to partners:
- Net income of the firm in assessment year 2022-23 is (-) ₹1,20,000, out of which unadjusted depreciation is ₹40,000.
  - On 31.05.2022, R retires from the firm and the other partners carry on the same business.
  - The firm's income for the Assessment Year 2023-24 before adjusting the aforesaid loss and depreciation is ₹1,20,000. [7]
- (b) Mr. Todi is a member of HUF. It consists of Mr. Todi, Mrs. Todi, Mr. Todi's major son (Mr. A) & Mr. Todi's minor son (B).  
On 1/4/2021, Mr. Todi transferred his house property acquired through his personal income to the HUF without any consideration.  
On 1/7/2022, HUF is partitioned and such property being divided equally.  
Net annual value of the property for the P.Y. 2021-22 is ₹80,000 & that for the P.Y. 2022-23 is ₹ 1,00,000. Examine the tax treatment for both the years. [7]



## DIRECT AND INDIRECT TAXATION

**Answer:**

- (a) Where a change occurs in the constitution of firm, on account of retirement or death of a partner, the proportionate loss of the retired or deceased partner shall not be carried forward. However, this section shall not apply in case of unabsorbed depreciation. Accordingly,

Computation of total income for A.Y. 2023-24

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Income before adjusting brought forward loss and depreciation			1,20,000
Less: Brought forward loss (excluding unabsorbed depreciation)	80,000		
Less: Loss which cannot be set off (Working)	30,000	50,000	
Less: Unabsorbed depreciation		40,000	90,000
Total Income			30,000

Working: Computation of share of R in brought forward loss and loss which cannot be set off

Particulars	Amount (₹)
Total unabsorbed brought forward loss	1,20,000
Less: Unabsorbed depreciation	40,000
Brought forward loss excluding depreciation	80,000
Share of R in aforesaid loss [ $(₹ 80,000 / 4) \times 2$ ]	40,000
Less: Share of R in current profit before adjusting brought forward loss & depreciation [ $(₹ 1,20,000 / 12 \times 2) \times 2 / 4$ ]	10,000
Loss which cannot be set-off	30,000

- (b) Computation of income from house property in the hands of Mr. Todi for the A.Y. 2022-23:

Particulars	Details (₹)	Amount (₹)
Net Annual Value (NAV)		80,000
Less: Standard deduction u/s 24(a)	30% of NAV	24,000
Income from house property		56,000

Tax treatment for the A.Y.2022-23: Since Mr. Todi transferred his house property acquired out of personal income to his HUF without adequate consideration, therefore income generated from such house property i.e. ₹ 56,000 shall be clubbed in hands of Mr. Todi as per provision of sec. 64(2).

Tax treatment for the A.Y.2023-24: In the previous year 2022-23, partition took place on 1/7/2022; hence the treatment shall be as under:

Particulars	Details (₹)	Amount (₹)
-------------	-------------	------------



## DIRECT AND INDIRECT TAXATION

Net Annual Value (NAV)				1,00,000
Less: Standard deduction u/s 24(a)		30% of NAV		30,000
Income from house property				70,000
Income earned till partition from April' 2022 to June' 2022 i.e. ₹ 17,500 [(₹ 70,000/12)×3] shall be clubbed in hands of Mr. Todi and income earned after partition i.e. ₹ 52,500 [(₹ 70,000/12)×9] shall be divided among the family members. However, as per provision of sec. 64(2) income of Mrs. Todi shall be clubbed in hands of Mr. Todi.				
Particulars	Mr. Todi	Mrs. Todi	Mr. A	B
Income from house property before partition clubbed in hands of Mr. Todi as per sec. 64(2)	17,500	-	-	-
Share of Income from house property ₹ 52,500/4	13,125	13,125	13,125	13,125
Income clubbed as per provision of sec. 64(2)	+ 13,125	(13,125)	-	-
Income clubbed as per provision of sec. 64(1A) [Note 1]	+ 13,125	-	-	(13,125)
Less: Exemption u/s 10(32)	(1,500)	-	-	-
Total income from house property	55,375	Nil	13,125	Nil

Note 1: It is assumed that Mrs. Todi has no other income.

6. (a) Analyse the basic reasons to impose taxation and also state the features of Indirect Taxes. [7]
- (b) Apply and state the constitutional provisions in relation to levy and collection of goods and services tax in the course of inter-state trade or commerce. Discuss whether the following supplies will constitute composite or mixed supply:
- (1) goods are packed and transported with insurance
  - (2) Food supplied to the in-patients as advised by the doctor/ nutritionist.
- [7]

**Answer:**

(a) Basic Reasons to impose taxation:

- To provide basic facilities for every citizen of the country: Whatever money is received by the government from taxation is spent by it for the welfare of the citizens of the country. Some of the services provided by the government are: health care, electricity, roads, education system, free houses for the poor, water supply, police, firefighters, judiciary system, disaster relief, taking care of bridges and other things of public welfare.



**DIRECT AND INDIRECT TAXATION**

- To finance multiple governments: All the local governments of the state like village panchayats, block panchayats and municipal corporations receive funds from the finance commission.
- Protection of the life: Taxpayers receive the protection of life and wealth from the government in case of external aggression, internal armed rebellion or any other situation.

The 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.
- 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 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 compare 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 service of mass consumption. Thus, it may increase the disparities between rich and poor.
- 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.

**(b) Levy and collection of goods and services tax in the course of inter-state trade or commerce:**

1. Goods and services tax on supplies in the course of inter-State trade or commerce shall be levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

Supply of goods, or of services, or both in the course of import into the territory of India shall be deemed to be supply of goods, or of services, or both in the course of inter-State trade or commerce.

2. The amount apportioned (as aforesaid) to a State shall not form part of the Consolidated Fund of India.
3. Where an amount collected as IGST has been used for payment of the SGST (or vice versa), such amount shall not form part of the Consolidated Fund of India.

**DIRECT AND INDIRECT TAXATION**

4. Parliament may, by law, formulate the principles for determining the place of supply, and when a supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

Taxability of the following services:

- (1) goods are packed and transported with insurance: the supply of goods, packing materials, transport and insurance is a composite supply and supply of goods is a principal supply.
- (2) Food supplied to the in-patients as advised by the doctor/ nutritionist: It is a part of composite supply of health care and not separately taxable". Further supplies of food by hospital to patients (not admitted) or their attendants or visitors are taxable.
7. (a) **Ram & Co. being a trader of cell phones registered under GST in the State of Tamil Nadu and furnished the following information relating to preceding financial year:**

Particulars	Value (₹ in lakhs)
Intra-State supply of taxable goods	120
Intra-State supply of exempted goods	10
Intra-State Supply of taxable services	5
Intra-State supply of exempted services	3
Interest earned on deposits/loans/advances	15.50

Examine whether Ram & Co. is eligible for composition scheme in the current financial year? [7]

- (b) **Following are the particulars, relating to one of the machine sold by S Ltd. to A Ltd. in the month of February 2023 at list price of ₹ 8,50,000. (exclusive of taxes and discount) Further, following additional amounts have been charged from ACD Ltd:**

Sl. No.	Particulars	₹
(i)	Municipal taxes chargeable on the machine	55,000
(ii)	Outward freight charges (Contract was to deliver machine at A Ltd.'s factory i.e. F.O.R. contract)	75,000

**Additional information:**

1. S Ltd. normally gives an interest-free credit period of 30 days for payment, after that it charges interest @ 1% p.m. or part thereof on list



## DIRECT AND INDIRECT TAXATION

price. A Ltd. paid for the supply after 45 days, but S Ltd. waived the interest payable.

2. S Ltd. received ₹ 50,000 as subsidy, from one non-government organization (NGO) on sale of such machine. This subsidy was not linked to the price of machine and also not considered in list price of ₹ 8,50,000.
3. A Ltd. deducted discount of ₹ 15,000 at the time of final payment, which was not as per agreement.
4. S Ltd. collected ₹ 8,500 as TCS (tax collected at source) under the provisions of the Income Tax Act, 1961.

Compute the value of taxable supply as per the provision of GST laws, considering that the price is the sole consideration for the supply and both parties are unrelated to each other. [7]

**Answer:**

(a) Aggregate turnover of Ram & Co. of Ram & Co. in the preceding financial year:

Particula	Value (₹ in lakhs)	Remark
Intra-State supply of taxable goods	120	Addable into the aggregate turnover
Intra-State supply of exempted goods	10	-do-
Intra-State Supply of taxable services	5	-do-
Intra-State supply of exempted services	3	
Interest earned on deposits/ loans/ advances	Nil	Not addable into the aggregate turnover
Aggregate turnover	138	Not exceeded ₹150 lakh.

Value of services not exceeded 10% of turnover or ₹5,00,000 whichever is higher: Value of taxable output supply of service = ₹5 lakh

Add: value of exempted output supply of service = ₹3 lakh

Total value of services = ₹8 lakh

Supply of service as % on turnover = (₹8 lakh / ₹138 lakh) x 100 = 5.80%

Permissible limit:

10% of turnover = ₹13.80 lakh (i.e. ₹138 lakh x 10%)

w.e.f 1-8-2019, Interest earned on deposits/loans/advances shall not be taken into account for determining the value of turnover in a State or UT.

Or,

₹5 lakh

Whichever is higher

Therefore, the value of service up to ₹ 13.80 lakh can be supplied by Ram & Co.

**DIRECT AND INDIRECT TAXATION**

In the given case supply of services (excluding interest earned on deposits/loans/advances) did not exceed the permissible limit and hence, Ram & Co. is eligible for composition scheme in the current financial year.

**(b) Computation of taxable value of supply:**

Particulars	₹
List Price (exclusive of tax and discount)	8,50,000
Municipal taxes chargeable on the machine [Only GST is required to be excluded]	55,000
Outward freight charges (Contract was to deliver machine at A Ltd.'s factory i.e. F.O.R. contract)	75,000
Interest on delayed payment [as the same is waived by S Ltd.]	-
Receipt of subsidy from NGO [as it is not directly linked with the machine]	-
Discount [as it is post supply discount]	-
TCS [as it is an interim levy not having the characteristics of tax]	-
Taxable value of supply	9,80,000

**8. (a) Compute the input tax credit available with MS Motors Ltd., manufacturer of cars, in respect of the following services availed by it in the month of October, 2022:**

Sl. No.	Particulars	Amount
1.	Accounting and Auditing Services	17,200
2.	Health insurance services for employees (Services are not provided under Government obligation)	6,200
3.	Routine maintenance of the cars manufactured by MS Motors Ltd.	28,000
4.	Repair services for office building (Cost of repairs is charged to Profit & loss Account)	28,400
5.	Hotel accommodation and conveyance facility to employees on vacation	13,360
6.	Testing services availed for car engines	19,000

[7]

**(b) XYZ Industries Ltd., has imported certain equipment from Japan at an FOB cost of 4,00,000 Yen (Japanese). The other expenses incurred by M/s. XYZ Industries in this connection are as follows:**



## DIRECT AND INDIRECT TAXATION

- Freight from Japan to Indian Port 40,000 Yen
- Insurance paid to Insurer in India ₹ 20,000
- Designing charges paid to Consultancy firm in Japan 60,000 Yen
- M/s. XYZ Industries had expended ₹ 2,00,000 in India for certain development activities with respect to the imported equipment
- XYZ Industries had incurred road transport cost from Mumbai port to their factory in MP ₹ 1,30,000
- The CBIC had notified exchange rate of 1 Yen = ₹ 0.69. The interbank rate was 1 Yen = ₹ 0.70
- M/s XYZ Industries had effected payment to the Bank based on exchange rate 1 Yen = ₹ 0.71
- The commission payable to the agent in India was 5% of FOB cost of the equipment in Indian Rupees.

Compute the assessable value.

[7]

**Answer:**

(a) Computation of Input tax credit available with MS Motors Ltd.:

Sl. No.	Particulars	Amount (₹)
1.	Accounting and Auditing Services	17,200
2.	Health insurance services for employees (Services are not provided under Government obligation)	Nil
3.	Routine maintenance of the cars manufactured by MS Motors Ltd.	28,000
4.	Repair services for office building (Cost of repairs is charged to Profit & loss Account)	28,400
5.	Hotel accommodation and conveyance facility to employees on vacation	Nil
6.	Testing services availed for car engines	19,000
Total credit available		92,600

(b) Computation of assessable value of goods for customs purpose:

Particulars	Amount in Yen
Free on Board (FOB)	4,00,000
Designing charges	60,000
Development charges [as it is post shipment expenses]	—
Road transport charges [as it is post shipment expenses]	—

**INTERMEDIAR EXAMINATION****SET - 2****MODEL ANSWERS****TERM – DECEMBER 2023****PAPER – 7****SYLLABUS 2022****DIRECT AND INDIRECT TAXATION**

Commission [4,00,000 x 5%]	20,000
FOB value of the Customs	4,80,000
	Amount in ₹
FOB value of the Customs [by using exchange rate of the CBIC] [4,80,000 x 0.69]	3,31,200
Insurance	10,000
Freight [40,000 x 0.69]	27,600
Total CIF value/ Assessable Value	3,68,800