

PAPER – 7 : DIRECT AND INDIRECT TAXATION

SUGGESTED ANSWERS

SECTION-A

1.

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

SECTION – B

2. (a)

Determination of residential status of Ms Meena for AY 2025-26						
No. of days of stay during the previous year 2024-25						
Oct	Nov	Dec	Jan	Feb	Mar	
31	30	31	31	28	31	Stay during the year 182 days
An Individual is said to be resident in India, if he satisfies any one of the conditions of section 6(1) viz.						
i) Stay in India in the previous year for a period of 182 days or more [sec 6(1)(a)].						
OR						
ii) Stay in India for a period of 60 days or more during the previous year and for 365 or more days during 4 previous years immediately preceding the relevant previous year [sec 6(1)(c)].						
Both the date of departure as well as the date of arrival are considered to be in India.						
Ms. Meena satisfies one of the conditions specified in sec 6(1). She is therefore, a resident in India for the PY 2024-25.						
Further, as she is a resident in at least 2 out of 10 previous years preceding the relevant previous year; or her stay in India in the last 7 years preceding the relevant previous year is 730 days or more. (She was in India from 03.09.2019 to 15.02.2023). PY 2019-20 = 210; PY 2020-21 = 365; PY 2021-22 = 365; PY 2022-23 = 321; and PY 2023-24 = 0						
So, Ms. Meena is Resident and Ordinarily Resident in India for the PY 2024-25						

Computation of total income of Ms Meena for the AY 2025-26:	
Particulars	(₹)
Salary received in India	8,00,000
Income of preceding previous year from a property in London received in London remitted to India	Nil
Income from a property in London received in India	4,23,500
Profit from a business in Nepal controlled from India	3,25,000
Income from property in USA received in London	2,50,000
Income from a house property in India received in London	3,00,000
Income on company deposit in London (total)	60,000
Total Income	21,58,500

2. (b)

Computation of the total income of Mr. Padam		
Particulars	₹	
Income from salary:		
Basic Salary (₹ 75,000 x 12)	9,00,000	
DA 15% of Basic salary	1,35,000	
House rent allowance	1,56,750	
Gift of wrist watch (since less than ₹ 5,000)	--- / Nil	
Annuity – fully taxable	60,000	
Gross salary	12,51,750	
Less: Standard Deduction (opted out of default regime)	50,000	
Income from salary	12,01,750	
<u>Working Notes</u>		
Computation of house-rent allowance		
Least of the following will be exempt		
Actual HRA received	1,80,000	
50%* of salary (₹ 9,00,000 + 50% of ₹ 1,35,000) *Place Chennai.	4,83,750	
Rent paid in excess of 10% of salary ₹ 10,000 x 12= ₹ 1,20,000 minus ₹ 96,750 (10% of ₹ 9,67,500)	23,250	
Taxable HRA = ₹ 1,80,000 – ₹ 23,250	1,56,750	
Salary for this purpose		
Basic Salary	₹ 9,00,000	
Dearness Allowance 15% x 50%	₹ 67,500	
		9,67,500

3. (a)

Computation of income from House Property of Mr Sonu for AY 2025-26 (Under default regime under section 115 BAC(1A))		
	Property A	Property B
Type	Let-out	Self-Occupied
Expected rent:	₹	₹
Municipal value	6,00,000	

Fair rent	3,50,000	
Municipal value or Fair rent whichever is higher	6,00,000	
Standard Rent	8,00,000	
Expected rent is limited to standard rent.	6,00,000	
Note: Since Municipal value is more than fair rent and less than standard rent, it is taken as Expected Rent.		
Actual rent received ₹ 55,000 P.M x (12 – 2 months)	5,50,000	
Gross annual value [Actual rent is less than expected rent because of unrealised rent and therefore the expected rent is adopted as GAV] Note: Mention of GAV is mandatory.	6,00,000	Nil
Less:		
Deduction U/s.24 @ 30%	(1,80,000)	Nil
Interest on loan [not eligible for self-occupied property under new default regime]	(2,50,000)	--- / Nil
Income from House Property	1,70,000	Nil
Total house property income		1,70,000

3. (b)

Computation of Profits and gains of business in the hands of Mr Aayush for the AY 2025-26		
	₹	₹
Net profit as per profit and loss account		4,45,100
Add: - Expenses not allowable: -		
GST liability paid on 5 th April, 2025 (Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible)	--- / Nil	
Excess commission paid to brother disallowed under section 40A (2) i.e. ₹ 12,000 - ₹ 10,000	2,000	
Medical expenditure for fire accident in business premises eligible for deduction.	--- / Nil	
Penalty paid to GST Department [Penalty paid for violation of any law is not allowable u/s 37(1) of the Income-tax Act, 1961]	1,500	
Donation to public charitable trust	2,500	
Depreciation (considered separately)	1,12,500	
		1,18,500
		5,63,600
Less: - Income not forming part of business income		
Dividend from domestic companies (The same is taxable under the Income from other sources)	15,000	
Income from agriculture - [Exempt under section 10(1)]	1,85,000	
Winning from lotteries net of TDS (The same is taxable under the Income from other sources)	10,500	
Depreciation under Income-tax Rules, 1962;		
Depreciation (Note-1)	70,125	
		2,80,625
Profits and Gains of business		2,82,975

Working Note: Calculation of depreciation		₹
Opening balance of plant and machinery as on 1 st April, 2024 (i.e. WDV as on 31 st March, 2024 minus depreciation for previous year 2023-24)		4,35,000
Add: - Cost of new plant and machinery		85,000
		5,20,000
Less: - Sale proceeds of assets sold		52,500
WDV of the block of plant and machinery as on 31 st March, 2025		4,67,500
Depreciation @ 15%		70,125
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article		

Alternative answer to 3. (b)

A student may compute Profits and gains of business by directly adopting gross profit and deducting allowable expenses. In such case the solution would be as under:		
Computation of Profits and gains of business in the hands of Mr Aayush for the AY 2025-26		
	₹	₹
Gross Profit		8,20,000
Less: - Expenses allowable: -		
Rent and rates ₹2,52,700 includes GST liability paid on 5 th April, 2025. Hence the full amount is eligible for deduction	2,52,700	
Salary to staff ₹72,000 which includes excess payment of ₹2,000 as commission to brother, not allowable. Balance allowed.	70,000	
Interest paid	60,000	
Administrative expenses (including medical expenditure for employee due to fire accident is eligible for deduction)	68,000	
General expenses ₹ 20,200 of which penalty of ₹1,500 and donation of ₹ 2,500 is not deductible. Balance eligible for deduction.	16,200	
Depreciation (Working Note)	70,125	
		5,37,025
Profits and Gains of business		2,82,975
Incomes not forming part of business income:		
Dividend from domestic companies- taxable under the Income from other sources (or) not taxable under the head PGBP.		15,000
Income from agriculture - [Exempt under section 10(1)]		1,85,000
Winning from lotteries net of TDS- taxable under the Income from other sources (or) not taxable under the head PGBP.		10,500
Working Note: Calculation of depreciation		
Opening balance of plant and machinery as on 1 st April, 2024 (i.e. WDV as on 31 st March, 2024 minus depreciation for previous year 2023-24)		4,35,000
Add: - Cost of new plant and machinery		85,000
		5,20,000
Less: - Sale proceeds of assets sold		52,500
WDV of the block of plant and machinery as on 31 st March, 2025		4,67,500
Depreciation @ 15%		70,125
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article		

4. (a)

Computation of Capital gains in the hands of Mr. Devendra for the AY 2025-26	
(i) <u>Sale of original shares</u>	₹
Sale of original shares (Long-term capital gains since held for more than 12 months)	
Sale consideration (10,000 shares x ₹ 2,500)	2,50,00,000
Less Cost of acquisition (10,000 shares x ₹ 1,500)	1,50,00,000
Long-Term Capital Gains	1,00,00,000
Less: Exemption under section 54F (Since entire net sale consideration was invested)	1,00,00,000
Taxable LTCG	Nil
(ii) <u>Sale of right shares</u>	₹
Sale consideration (5,000 shares x ₹ 2,500)	1,25,00,000
Less Cost of acquisition (5,000 shares x ₹ 1,200)	60,00,000
Short-term Capital Gains	65,00,000
(iii) <u>Sale of right entitlement</u>	
Sale consideration (5,000 x ₹ 500 per entitlement)	25,00,000
Less: Cost of acquisition	Nil
Short-term capital gain – as the right is held only for 12 days	25,00,000
Note: Exemption under section 54F is not available on short-term capital gains.	

4. (b)

Computation of income chargeable under Income from Other Sources of Sharad for the AY 2025-26		
Particulars		(₹)
Interest earned on Central Government securities.		50,000
Token money received for sale of house property, forfeited.		1,00,000
Dividend received from Co-operative society.	15,000	
Less: Interest on loan taken for investment in shares of Co-operative Society. [within the limit of 20% of income]	2,500	
		12,500
Lottery income -grossed up. ₹ 35,000 X 100 / 70		50,000
Interest from employee's contribution to unrecognized provident fund upon withdrawal.		20,000
Accumulated balance of employee's contribution withdrawn from unrecognized provident fund – not taxable.		--- / Nil
Interest from unrecognized provident fund in respect of employer's contribution taxable under the head 'Salary' hence not considered.		--- / Nil
Accumulated balance of employer's contribution upon withdrawal from unrecognized provident fund taxable under the head 'salary' hence not considered.		--- / Nil
Acquisition of movable property for inadequate consideration:		
Fair market value of jewellery	85,000	
Fair market value of diamond	36,000	
	1,21,000	
Less: Consideration paid		
For jewellery ₹ 50,000 + for diamond ₹ 20,000	70,000	
		51,000
Income from other sources		2,83,500

5. (a)

Computation of gross total income of Sadanand for the AY 2025-26			
Particulars		(₹)	(₹)
I	Income from salary		8,00,000
II	Income from house property		
	Net annual value	1,70,000	
	Less: Deduction U/s 24 @30%	51,000	
			1,19,000
III	Income from PGBP		
	Textile business	4,50,000	
	Less: Current year depreciation	65,000	
		3,85,000	
	Less: Unabsorbed depreciation [Available for unlimited number of years]	10,000	
			3,75,000
	Speculative business	2,60,000	
	Less: Brought forward loss from speculative business	24,000	
			2,36,000
IV	Capital Gains		
	Long-term capital gain on sale of building	3,00,000	
	Less: Brought forward short-term capital loss	7,500	
			2,92,500
	Gross total income		18,22,500
	Losses to be carried forward		
	Loss on maintenance of race-horses (can be carried forward up to AY 2029-30 i.e. 4 assessment years)		56,000
	Loss on gambling – cannot be set-off nor carried forward		Nil

5. (b)

Computation of total income of Rajesh for A.Y 2025-26 under both the regimes				
		Optional tax regime		Default tax regime [Sec.115BAC(1A)]
Income from Business		₹	₹	₹
Income from garments business as per Profit & loss a/c			10,80,000	10,80,000
Income from Capital Gains				
Short term capital gain on transfer of shares on which STT is paid as on 1 st December, 2024			1,40,000	1,40,000
Income from other sources				
Interest earned from deposit out of money gifted to his minor son is includible in the hands of Rajesh as per section 64(1A)		12,000		12,000
Less: - Exemption under section 10(32)		1,500		Not eligible
			10,500	12,000
Gross total income			12,30,500	12,32,000
Less: - Deductions under Chapter VI-A				
Under section 80C				
Life insurance premium		24,000		Not eligible

Under section 80G				
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit	50,000		Not eligible	
		74,000		Nil
Total Income		11,56,500		12,32,000
Tax liability				
Tax on short term capital gain on transfer of shares under section 111A @ 20% on ₹1,40,000		28,000	OR	28,000
Tax on remaining taxable income of ₹ 10,16,500 (₹ 12,500 + ₹ 1,00,000 + ₹ 4,950)		1,17,450		
Tax on total income of ₹ 10,92,000 (₹ 20,000 + ₹ 30,000 + ₹ 13,800)				63,800
Total tax		1,45,450		91,800
Add: HEC @ 4%		5,818		3,672
Tax liability		1,51,268		95,472
In the instant case, tax liability under default tax regime under section 115BAC(1A) is lower, hence it is advisable to opt for section 115BAC(1A).				

6. (a)

Differences between Direct and Indirect Taxes:

Basis	Direct Taxes	Indirect Taxes
(i) Meaning	Direct tax is referred to as the tax, levied on person's income and wealth and is paid directly to the government.	Indirect Tax is referred to as the tax, levied on a person who consumes the goods and services and is paid indirectly to the government.
(ii) Nature	Progressive in nature i.e., higher tax is levied on a person earning higher income and vice versa.	Regressive in nature i.e., all persons will bear equal wrath of tax on goods or service consumed by them irrespective of their ability.
(iii) Incidence and Impact	Falls on the same person. Assessee bears such taxes. Thus, it pinches the taxpayer.	Falls on different person. Tax is recovered from the assessee, who passes such burden to another person. Thus, it does not pinch the taxpayer.
	Example: Income Tax.	Example: GST, Custom Duty.
(iv) Evasion	Tax evasion is possible.	Tax evasion is hardly possible because it is included in the price of the goods and services.
(v) Inflation	Direct tax helps in reducing the inflation.	Cost of goods and services increases due to levy of indirect tax thus indirect taxes promote inflation. However, sometimes it is useful tool to promote social welfare by checking the consumption of harmful goods or sin goods through higher rate of tax.
(vi) Imposition and collection	Imposed on and collected from the same person.	Imposed on and collected from consumers of goods and services but paid and deposited by the collector of such taxes.
(vii) Burden	Cannot be shifted.	Can be shifted.
(viii) Event	Taxable income of the assessee.	Supply of goods and services.

6. (b)

The Goods and Service Tax Council (GST Council) shall make recommendation to the Union and the States on the following points:

(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, <u>principles of levy</u> , apportionment of Goods and Services Tax levied <u>on supplies in the course of inter-state trade or commerce</u> under Article 269A and the <u>principles that govern the place of supply</u> ;
(iv)	The threshold limit of turnover below which goods and services may be exempt 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 provisions 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 or forward charge?**

(i)	Where a casual taxable person receives services of transportation of goods by road from a Goods Transport Agency (GTA), RCM will apply. Raman shall pay tax under RCM
(ii)	Entry 5A, Services supplied by the Central or State Government or local authority by way of renting of immovable property to a person registered under the CGST Act, 2017 are covered under RCM. However, Ministry of Railways is excluded. So, Indian Railways is liable to pay tax on forward charge basis.
(iii)	Security services provided by any person other than a body corporate to a registered person is liable to tax under RCM. Since, services are received from a company (body corporate) tax shall be paid by ABC Private Limited under forward charge.

7. (b)

	Time of supply
(i)	<u>The time of supply in respect of ₹ 5,00,000:</u>
	(a) Date of issue of invoice (16 th October, 2024)
	Or
	(b) The last date on which invoice ought to have been issued in terms of section 31 (i.e. 15 th October, 2024)
	Last date of issuance of invoice will be the date of removal where supply involves movement of goods.
	Therefore, time of supply of goods is the date on which invoice ought to have been issued, which is 15 th October, 2024.

(ii)	<u>The time of supply in respect of ₹ 5,000:</u>
	The time of supply to the extent it relates to an addition in the value of supply by way of interest, late fee or penalty for delayed payment of any consideration shall be
	the date on which the supplier receives such addition in value.
	Here, the additional amount of ₹ 5,000 is received on 30 th November, 2024. Hence, the time of supply for this amount will arise on 30 th November, 2024.

8. (a)

The details of outward supplies of goods or services or both furnished in Form GSTR 1 shall include the:

- a. Invoice-wise details of all:
 - i) Inter-state and intra-state supplies made to the registered persons; and
 - ii) Inter-state supplies with invoice value more than ₹100,000 made to the unregistered persons;
- b. Consolidated details of all
 - i) Intra-state supplies made to unregistered persons for each rate of tax;
 - ii) State-wise inter-state supplies with invoice value up to ₹1,00,000 made to unregistered persons for each rate of tax;
- c. Debit and credit notes, if any, issued during the month for invoices issued previously.

Details to be given in IFF [Invoice Furnishing Facility]

The details of outward supplies of goods or services or both furnished using the IFF shall include -

- a. Invoice wise details of inter-state and intra-state supplies made to the registered persons;
- b. Debit and credit notes, if any, issued during the month for such invoices issued previously.

8. (b)

Determination of Assessable value

Particulars	Euro
FOB Value	14,000
Add: design and development charges (other than in India will be added)	1,500
Freight	800
Demurrage charges to port authority – not included	--- / Nil
Total	16,300
Rate of exchange (as per CBIC will be taken)	120
	₹
In INR	19,56,000
Add: Insurance	7,000
Add: Commission (14,000 x 5% x 120)	84,000
Add: Developmental work in India – Not added (only other than India will be added)	--- / Nil
Add: Cost of transporting from Indian port – Not added (Expenses after Import not to be added)	--- / Nil
Assessable value	20,47,000