NMIMS GLOBAL ACCESS SCHOOL FOR CONTINUING EDUCATION

NMIMS Global Access School for Continuing Education (NGA-SCE)

Subject: Taxation- Direct and Indirect

Internal Assignment Applicable for December 2020 Examination

Answers to Question No.1:

Introduction:

GST is a consumption-based tax imposed on goods and services. It is a single uniform tax which has eliminated and absorbed multiple taxes under the previous indirect tax regime that included Value Added Tax (VAT), Service Tax, Excise Duty, Central Sales Tax (CST), Entry Tax, Local Body Tax (LBT), etc.

GST is called an Indirect Tax because it is a tax collected by an intermediary (such as a manufacturer/traders/service providers) from the person who bears the ultimate economic burden of the tax (such as the consumer). The Intermediary later files a tax return and forwards the tax proceeds to the government. In this sense, the term indirect tax is contrasted with a direct tax, which is collected directly by government from the persons on whom it is imposed.

In the earlier indirect tax regime, there were many indirect taxes levied by both the state and the centre. States mainly collected taxes in the form of Value Added tax (VAT). Every state had a different set of rules and regulations. Inter-state sale of goods was taxed by the centre. Central State Tax (CST) was applicable in case of inter-state sale of goods. The indirect taxes such as the entertainment tax, octroi and local tax were levied together by state and centre. These led to a lot of overlapping of taxes levied by both the state and the centre. For example, when goods were manufactured and sold, excise duty was charged by the centre. Over and above the excise duty, VAT was also charged by the state. It led to a tax on tax effect, also known as the cascading effect of taxes.

The following are the lists of taxes which has been subsumed under GST:

- Central Excise Duty (CENVAT)
- Duties of Excise
- Additional Duties of Excise
- Additional Duties of Customs, commonly known as Countervailing Duty (CVD)
- Special Additional Duties of Customs
- Service Tax
- State VAT
- Central Sales Tax
- Purchase Tax

- Luxury Tax
- Entertainment Tax
- Entry Tax
- Taxes on advertisements
- Taxes on lotteries, betting and gambling
- Central/State surcharge and cess as they relate to supply of goods and services.

Conclusion:

Thus, we discussed that why GST is called the indirect tax as the ultimate economic burden is borne by the consumers who is going to consume the goods and services. And, there are many central and state taxes which has been subsumed under GST eliminating the different tax burden on the consumers and making the GST a simple tax law.

Answers to Question No:2

Introduction:

Depreciation refers to a decrease in the value of an assets as a result of normal wear and tear or due to obsolescence. In other words, depreciation means depletion in real value of assets over a period of time. Furthermore, depreciation is a non-cash expenses as it does not involve any outflow of cash. Hence, depreciation as an expense from all the other conventional expenses. As per the Act, there are two methods for calculating the value of depreciation i.e. Straight-Line Method (SLM) and the Written Down Value Method (WDV).

- **Straight-Line Method:** This is the most commonly used method to calculate depreciation. It is also known as fixed instalment method. Under this method, an equal amount is charged for depreciation of every fixed assets in each of the accounting periods. This uniform amount is charged until the asset gets reduced to nil or its salvage value at the end of its estimated useful life.

- **Diminishing Balance Method:** This method is also known as reducing balance method, written down value method or declining balance method. A fixed percentage of depreciation is charged in each accounting period to the net balance of the fixed asset under this method. This net balance is nothing but the value of asset that remains after deducting accumulated depreciation.

Concepts and Application:

In the given case, Mr. Rahul who works as a junior accountant with Hardwork Mills Private Limited wants to know about the normal depreciation and additional depreciation and how they differ from one another.

- Normal depreciation is the usual depreciation that is allowed according to normal provisions of Income Tax Act every year as per the prescribed rate on the block of assets. The assessee needs to comply with the certain conditions in order to claim the depreciation such as:
  - ✓ The assets must be owned, wholly or partly, by the assessee
  - ✓ The assets must be used for the business or profession. If it is only partly used for business then, depreciation would be allowed on pro-rata basis.
  - ✓ The asset must be used during the relevant financial year.

- Additional depreciation is allowed for new plant and machinery acquired and installed by an assessee who is engaged in:
  - ✓ Manufacturing or production of articles or things; or
  - ✓ In the business of generation, transmission and distribution of power.
  - ✓ Depreciation @20% of actual cost of assets is allowed as additional depreciation.
  - ✓ If the assessee is engaged in production or manufacturer of any article or thing on or after 1st April, 2015 in any notified backward area of Andhra Pradesh, Bihar, Telangana, west Bengal and acquires and installs any new machinery or

plant during 1st April, 2015 to 31st March, 2020 then additional depreciation of 35% is allowed.

But there are certain cases where additional depreciation is not allowed which has been listed below:

- In case of ships and aircraft no additional depreciation is allowed.
- Second hand plant and machinery (machinery used earlier by other persons within or outside India)
- Any machinery installed in an office or residence including accommodation in the nature of guest house
- Any office appliances or road transport vehicles
- Any plant and machinery on which 100% depreciation is already allowed.

Conclusion:

Thus, Mr. Rahul an accountant of Hardwork Mills Private Limited should keep in mind the above conditions for claiming the additional depreciation and he should also consider the cases where additional depreciation cannot be claimed.

Answers to Question No.3:

Part (a)

Introduction:

In the given case, Miss Seema is a resident individual, who furnishes the following income under different head for the computation of Gross total income for the previous year. Gross total income (GTI) is the total income earned by the assessee during the previous year such as income from salary, income from house property, income from other sources, income from business and profession and capital gains, and giving consideration to the provisions of clubbing of income and set-off and carry forward of losses.

Concepts and Application of Formula:

Computation of Gross total income of Miss Seema for the assessment year 2020-21:

Particulars		Amount (Rs.)
i. Income from Salary Salary Income (Net)		**2,00,000**
ii. Income from Business and Profession Business Income (Net) Less: Unabsorbed depreciation Less: Loss from Gambling in a game	3,50,000 15,000 30,000	**3,05,000**
iii. Income from Capital Gain Long term capital gain on sale of land Less: Short term capital loss	16,000 10,500	**55,00**
Gross Total Income (GTI)- (i+ii+iii)		**5,10,500**

Note:

- ✓ In this case, the previous year is assumed to be 2019-20 and therefore, the assessment year will be 2020-21.
- ✓ Short term capital loss of Rs.10,500 can be set off against the long-term capital gain on sale of land of Rs. 16,000 and therefore the net amount of Rs. 5500 will be income from capital gain.
- ✓ Loss from gambling in a game amounting to Rs. 30,000 is an item which falls under the head "Income from other sources" and the same can be set off against any other income during a financial year. However, loss from "Income from other sources" cannot be carried forward to the next year.
- ✓ Unabsorbed depreciation can be set off against any income from any head except for the income from salary and capital gains and it can be carried forward for any number of years without any restriction.

Part (b)

Carry forward of loss means that, if instead of profit an assessee incurs losses and they are not being set off by profits, they can be carried forward to the next assessment year where they can be set off against the allowable profits.

- **Capital gain losses:** If a taxpayer is unable to set-off the capital loss in the given financial year, both long term loss and short-term loss can be carried forward immediately for eight assessment years.

- **Speculative business losses:** Losses in speculative businesses can be carried forward up to a period of four years immediately succeeding the assessment year in which the loss has been incurred. An assessee must file the ITR within due date prescribed to carry forward the losses from speculative business. Such loss can be adjusted only against income from speculation business.

- **Losses from Income from other sources:** The losses occurred under the head "Income from other sources" i.e. from the business of owing and maintaining of race horses can be set-off against profits from owing and maintaining of race horses only. This loss cannot be set-off against any other incomes but can be carried forward to the next four financial years. However, other losses occurred under the head "income from other sources" can be set-off against any other income during a financial year and such loss cannot be carried forward to the next year.

Conclusion:

Thus, in the given case the amount of losses that can be carry forward is **NIL** because all the losses which has been given above is set-off against their respective heads which has been explained in **NOTE** section above.