

Paper-14: Indirect and Direct - Tax Management

Whenever required, the candidate may make suitable assumptions and state them clearly on the answers.

Working notes should form part of the relevant answer.

[Answer Question No. 1 (carrying 25 marks), which is compulsory and any five from the rest]

Question 1.

(a) Fill up the blanks:

[25 × 1]

- (i) Goods are classified under Central Excise Tariff Act based on the "Harmonized System of Nomenclature" having _____ digit classification.
- (ii) A service provider whose previous year taxable services are less than or equal to ₹ _____, in the current year such service provider is called as small service provider.
- (iii) Sea beyond _____ miles from the coastal base line is called High Sea.
- (iv) _____ goods means goods declared under Section 14 of CST Act to be of special importance in interstate trade or commerce.
- (v) Chapter V of the Finance Act, 1994 (i.e. the service tax law), extends to the whole of India except the state of _____.
- (vi) The return form ER-1 in excise is to be filed by _____ [100% Export Oriented Unit (EOU)/ manufacturer/ SSI (Small Scale Industries) unit].
- (vii) Registration under VAT for those dealers is compulsory whose gross annual turnover is above _____.
- (viii) _____ Scheme is presently applicable only to stainless steel pattas/pattis and aluminium circles.
- (ix) An SSI unit _____ (is eligible/ is not eligible) for SSI exemption, if it manufactures goods bearing the brand name of any other person.
- (x) In customs, if cost of transport is not ascertainable, it will be taken as _____ of the FOB value of goods.
- (xi) The provisions of Alternate Minimum Tax are applicable in case of an individual, HUF, AOP, BOI, artificial juridical person if adjusted total income exceeds ₹ _____.
- (xii) Exemption of capital gains under section 54GA of the Income-tax Act is allowed on transfer of assets in case of shifting of an industrial undertaking from urban area to any _____.
- (xiii) As per section 35DD of the Income-tax Act, if an Indian company incurs any expenditure for the purpose of amalgamation or demerger, it is allowed as deduction in _____ successive years in _____ equal installments.
- (xiv) In computing income from the house property, interest on borrowed capital is allowable as deduction u/s _____ of the Income-tax Act if the capital is borrowed for the purpose of purchase, construction, repair, renewal or reconstruction of the property.
- (xv) In case of corporate assessee, the due date of installment in a relevant previous year for payment of 45% of advance tax is on or before _____.
- (xvi) The Central Excise Revenue Audit is conducted by the _____.

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- (xvii) In excise, in case of exports, the place of removal is _____ where export documents are presented to customs office.
- (xviii) Upgradation of computer system by increasing its storage or processing capacity _____ (is/ is not) manufacture.
- (xix) _____ is the basic document for assessment of custom duty and clearance of imported goods.
- (xx) _____ goods in custom means any goods, the import or export of which is subject to any prohibition under the Customs Act or any other law for the time being in force.
- (xxi) Employers contribution towards an approved superannuation fund will be chargeable to tax in the hands of an employee to the extent it exceeds ₹ _____ per annum.
- (xxii) Any sum received under a Keyman insurance policy (including bonus) is taxable under the head _____.
- (xxiii) In case of family pension, the amount of standard deduction is ₹ _____ or _____ per cent of such income, whichever is less.

Question 2.

(a) Whether recovery from buyer is not essential condition for levy of indirect taxes? [2]

(b) State the power of taxation under Constitution of India. [2]

(c) List out the items which will appear on the Concurrent List (list III) given in Schedule Seven of the Constitution. [2]

(d) M/s. Kalpana Ltd., sold machinery to Mr. Gupta at a price of ₹ 7 lakhs on 15th June, 2014 and the same was removed from the factory at Kolkata. The rate of excise duty applicable is 12.36% on the date of removal. Mr. Gupta refused to take delivery of the machine when it reached his destination. In the meantime, M/s. Kalpana Ltd. increased the prices of the similar type of machinery to ₹ 8.5 lakhs with effect from 16th June, 2013. The machinery as refused by Mr. Gupta has been sold on 20th June 2014 to Mr. Basu at the revised price of ₹ 8.5 lakhs. The excise duty including Education Cess is 12.36% applicable with effect from 10th June, 2014.

Explain the following with reasons:

- (i) What is the value to be taken as assessable value?
- (ii) What is the rate of excise duty applicable and duty payable on above transaction?
- (iii) The Central Excise Officer is demanding duty on the price of ₹ 8.5 lakhs at the time of sale to Mr. Basu. Is he right in his approach?

Does cost of production have any bearing on the assessable value? [4]

(e) The following are the particulars of income of Mr. P for the previous year 2014-15:

Particulars	₹
(a) Rent from a property in Delhi received in USA	80,000
(b) Income from a business in USA controlled from Delhi	1,20,000
(c) Income from a business in Bangalore controlled from USA	1,80,000

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(d) Rent from a property in USA received there but subsequently remitted to India	60,000
(e) Interest from deposits with an Indian company received in USA	20,000
(f) Profits for the year 2013-14 of a business in USA remitted to India during the previous year 2014-15 (Not taxed earlier)	75,000
(g) Gift received from his parents.	45,000

Compute his income for the assessment year 2015 –16 if he is:

- (i) Resident and ordinarily resident in India,
- (ii) Not ordinarily resident in India,
- (iii) Non-resident in India.

[5]

Question 3.

(a) The income of X, who is totally blind, for the previous year 2014-15, is as under:

		₹
(i)	Income from house property	1,82,000
(ii)	Income from interest on loan	27,000
(iii)	Income from interest on bank deposits under recurring	10,000
(iv)	Long-term capital gains	1,20,000

He is eligible for deduction of ₹10,000 u/s 80C on account of PPF and ₹50,000 under section 80U. Compute his tax liability.

[5]

(b) Determine the cost of production on manufacture of the under-mentioned product for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation Rules, 2000

(amount in ₹)

Direct material	13,483
Direct wages & salaries	7,900
Works overheads	5,700
Quality control costs	4,800
Research and development costs	2,700
Administrative overheads	3,900
Selling and distribution costs	3,200
Realizable value of scrap	1,300

The Administrative Overheads are in relation to production activities. Material cost includes Excise duty ₹ 1,483.

[4]

(c) E, an employee of XYZ Pvt. Ltd. retired from the company on 30.11.2014. At the time of his retirement, he received ₹1,44,000 as leave salary from his employer. The following information is provided by the employee:

(1) Salary at the time of retirement (per month)	₹9,000
(2) Period of Service	20 years & 8 months
(3) Leave encashment	₹1,44,000
(4) Leave availed while in service	14 months
(5) Balance unavailed leave at the time of retirement	16 months

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(6) Average salary for the months of February, 2014 to November, 2014	₹8,800
(7) Leave entitlement	1 ½ month for every completed year of service

Compute the amount of taxable leave encashment.

[3]

(d) 'X' received a vacant site under his father's will. The value of the site on 31.3.2015 is ₹15 Lakhs. As per terms of the 'Will' in the event 'X' wants to sell the site he should offer it to his brother for sale at ₹10 Lakhs. 'X', therefore, claims that the value of the site should be taken at ₹10 Lakhs as at 31.3.2015. Is the claim correct?

[3]

Question 4.

(a) In case of a specific entry viz-a-viz a residuary entry, which one should be preferred for classification purpose? (Answer the following with the help of decided case law)

[8]

(b) Ms. S who draws a salary of ₹20,000 p.m. received the following gifts during the previous year 2014-15:

- (i) Gift of ₹5,00,000 on 16.4.2014 from a friend.
- (ii) Gift of jewellery fair market value of which is ₹3,00,000 on 17.5.2014 from her fiancée.
- (iii) Gifts of ₹51,000 each received from her 4 friends on the occasion of her marriage on 21.10.2014.
- (iv) Gift of ₹1,00,000 on 22.11.2014 from her mother's sister.
- (v) Gift of ₹60,000 on 25.11.2014 from her father's brother.
- (vi) Gift of ₹50,000 from her husband's friend on 1.12.2014.
- (vii) Gift of ₹21,000 on 15.12.2014 from her mother's friend.
- (viii) Gift of ₹26,000 on 25.12.2014 from her brother's father in law.
- (ix) Gift of ₹1,21,000 from her husband's brother.
- (x) Gift of ₹26,000 from her employer.
- (xi) Scholarship of ₹1,20,000 from a charitable institution registered under section 12AA.
- (xii) He has purchased a immovable property from B who is not his relative from a sum of ₹24,50,000. The stamp duty value of the property is ₹26,00,000.
- (xiii) She purchased bullion for ₹4,40,000 whose fair market value is ₹4,85,000.
- (xiv) Gift of immovable property from her friend whose stamp duty value is ₹5,00,000.

Compute her total income for the assessment year 2015-16.

[7]

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Question 5.

(a) Distinguish between Safeguard Duty and Anti-dumping Duty for the purpose of customs. [5]

(b) Mrs. Satya Yadav received the following amounts during financial year 2014 –15:

	₹
Gross Salary	5,30,000
Family Pension (₹10,000 × 12)	1,20,000
Income of a minor child	49,000
Accumulated balance in PF of her husband after his death	1,00,000
Gratuity received after the death of husband	1,00,000

Calculate taxable income of Mrs. Satya Yadav and tax liability for the assessment year 2015-16.

[6]

(c) Dream Company Ltd. has let-out a premise with effect from 1.10.2014 for monthly rent of ₹1.5 lakh. The lease is valid for 10 years and the tenant has made a deposit equivalent to 3 months rent. The tenant has undertaken to pay the municipal taxes of the premises amounting to ₹ 2 lakh. What will be the value of the property under Schedule III of the Wealth Tax Act for assessment to wealth tax?

[4]

Question 6.

(a) Snow Ltd. sold 100 units manufactured by it for ₹ 15,000 per unit. It had received interest-free advance of ₹ 3,00,000 from the buyer for the whole of the year. Compute the assessable value of 100 units sold in following independent case:

- (i) The price charged from other buyers is ₹ 14,500 per unit.
- (ii) The price charged from other buyers is ₹ 16,300 per unit.
- (iii) The normal rate of interest is 12% per annum and the price charged from other buyers is ₹16,300 per unit.

[3]

(b) M, who was born on 4.01.1950 submits the following information:

Particulars	₹
1. Rent from house (per month)	25,000
2. Municipal taxes paid during the previous year	20,060
3. Long-term capital gains on sale of gold	1,00,000
4. Interest on bank deposits (gross)	44,150
5. Term deposit made during the year in a schedule bank for six years	20,000

Compute the Total Income and tax liability of M for assessment year 2015-16.

[7]

(c) X, a German national, came to India for the first time on 1.7.2008. During the period from 1.7.2008 to 31.3.2015, he stayed in India as follows—from 1.7.2008 to 31.10.2008; from 1.5.2008 to 31.10.2010; from 1.11.2010 to 31.12.2010 and from 1.7.2013 to 31.8.2014. During the previous year ended on 31.3.2015, X's income consisted of: (a) business in India: ₹40,000; (b) interest from an Indian company: ₹2,000; (c) dividends from non-Indian companies received in Germany but

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remitted to India: ₹5,000; (d) business in Germany (controlled from India): ₹25,000; (e) income from house property in Germany: ₹8,000. Determine, giving full reasons, the gross total income of X for the assessment year 2015-16 after ascertaining his 'residence' for the purpose of income-tax. [5]

Question 7.

(a) M/s. Human Care Ltd. has introduced a new product 'Paradise' toothpaste, notified under Section 4A of the Central Excise Act, 1944, with a notified abatement of 30%. Determine the central excise duty payable if rate of duty is 12%, education cess is 2% and secondary and higher education cess is 1%:

- (i) 1,500 pieces having retail sale price (RSP) ₹ 65 per piece are sold in retail packages to wholesale dealer at ₹ 50 per piece.
- (ii) 2,500 pieces having RSP ₹ 65 per piece are sold in retail packages, but buyer is charged for 2,100 pieces only at ₹ 50 per piece (400 pieces have been given free as quantity discount).
- (iii) 50 pieces were given away as free samples, without any RSP on the pack.
- (iv) 350 multi-packs were cleared at ₹ 80 per pack, each containing two toothpaste tubes and one toothbrush free (without any RSP on it). Each tooth paste tube was having RSP ₹ 70, which was scored out and each multi-pack had RSP of ₹ 130.

Make suitable assumptions wherever required and show the calculations with appropriate notes. [5]

(b) Bhubaneswar Ltd. Carried out following works, all of which are leviable to sales-tax/VAT as transfer of property involved in the execution of works contract (the sum charged given below are exclusive of all taxes) -

- (1) New constructions: ₹ 65 lakh;
- (2) Additions and alterations to damaged structures on land to make them workable: ₹ 30 lakhs;
- (3) Supply along with erection, commissioning and installation of plants: ₹ 87 lakhs;
- (4) Maintenance and repair of goods: ₹ 35 lakhs;
- (5) Maintenance and repair of immovable property: ₹ 42 lakhs;
- (6) Finishing and Glazing Services of an immovable property: ₹ 12 lakh;
- (7) Other works contracts: ₹ 6 lakh.

Compute taxable value and service tax thereon. [4]

(c) Whether in absence of any defect in maintenance of books of account, disallowance could be made merely on ground that expenses incurred in current year were more than that in preceding year? (Answer the following with the help of decided case law) [6]

Question 8.

(a) Mr. Gaya, a dealer in Kolkata dealing in consumer goods, submits the following information pertaining to the Month of March, 2015:

- (i) Exempt goods 'A' purchased for ₹ 1,50,000 and sold for ₹ 1,70,000.
- (ii) Goods 'B' purchased for ₹ 2,00,000 (including VAT) and sold at a margin of 10% profit on purchases (VAT rate 12.5%);
- (iii) Goods C purchased for ₹ 1,25,000 (excluding VAT) and sold for ₹ 1,70,000 (VAT rate 4%);
- (iv) His unutilized balance in VAT input credit on 01.03.2015 was ₹ 2,000.

Compute the turnover, Input VAT, Output VAT and Net VAT payable by Mr. Gaya. **[4]**

(b) What are the export incentives available to the manufacturer? **[5]**

(c) Why indirect taxes are called regressive in nature as against direct taxes? **[3]**

(d) An interior decorator charges ₹ 7,00,000 from a client for providing professional services. The breakup of the bill is as follows:-

- i. Value of furniture sold to the client – ₹ 3,50,000
- ii. Labour and facility charges – ₹ 1,50,000
- iii. Value of materials consumed in providing the service – ₹ 2,00,000

Compute the amount of service tax to be charged from the client. Provided all the amounts are exclusive of service tax. **[3]**