

Paper 16 – Tax Management and Practice

Time Allowed: 3 hours

Full Marks: 100

This paper contains 9 questions, divided in two sections Section A and Section B. In total 7 questions are to be answered. Answer any five questions from Section A (out of six questions - Questions Nos. 1 to 6).

In Section B, Question No.9 is compulsory and answer any one question from the remaining two questions of the section (i.e. out of Question nos. 7 & 8).

Students are requested to read the instructions against each individual question also. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

All the questions relate to the assessment year 2014-15, unless stated otherwise.

Section A

Answer any five Questions

1. (a) Calculation of Income Tax in the case of an employee below the age of sixty years having a handicapped dependent (With valid PAN furnished to employer), for A.Y. 2014-2015:

S. No.	Particulars	₹
1	Gross Salary	3,20,000
2	Amount spent on treatment of a dependant, being person with disability (but not severe disability)	7000
3	Amount paid to LIC with regard to annuity for the maintenance of a dependant, being person with disability(but not severe disability)	50,000
4	GPF Contribution	25,000
5	LIP Paid	10,000

[5]

(b) Mr. Y submits the following particulars of his income for the assessment year 2014-2015

	(₹)
Income (other than income from business & profession)	4,00,000
Dividend from Indian Company	1,000
Interest on Bank Deposit	2,000
Life Insurance Premium paid	6,000
Donation to Jawahar Lal Nehru Memorial Fund	15,000
Donation to Prime Minister's National Relief Fund	16,000
Donation to a Public Charitable Institution	24,000
Donation to a University for statistical research approved U/s 35(1)(iii)	5,000

Determine the net income and tax liability for the assessment year 2014-2015.

[9]

2. (a) Determine the assessable value for purpose of excise duty under the Central Excise Act, 1944 in the following cases:

MTP_Final_Syllabus 2012_Dec2014_Set 1

- (i) An assessee sells his excisable goods for ₹120 per piece and does not charge any duty of excise in his invoice. Subsequently it was found that the goods were not exempted from excise duty but were liable at 20% advalorem.
- (ii) Certain excisable goods were sold for ₹120 per piece and 20% advalorem is the rate of excise duty. Subsequently it was found that the price cum duty was in fact ₹140 per piece as the assessee had collected ₹20 per piece separately.
- (iii) The cum duty price per piece was ₹120 and the assessee had paid duty at 20% advalorem. Subsequently it was found that the rate of duty was 30% advalorem and the assessee had not collected anything over and above ₹120 per piece. [8]

(b) Give the consequences regarding excise duty liability if goods manufactured by EOU (Export Oriented unit) & brought to DTA (Domestic tariff Area). [6]

3. (a) State briefly with reasons whether credit under the CENVAT Rules, 2004 would be available in the following cases:
- (i) Inputs are pilfered from the store-room.
- (ii) Final product is cleared in durable and returnable packing material.
- (iii) An input becomes a waste and is sold as scrap.
- (iv) Inputs used in trial runs [7]

(b) The Net Profit of X Ltd. for the year ended March 31, 2014 amounted to ₹7,50,000 after debiting/crediting the following items:

Particulars	₹
Provision for bonus (paid on November 15,2014)	30,000
Provision for commission to employees (paid on December 1,2013)	76,000
Payment of annual installment under an approved agreement to a foreign collaborator for technical knowhow	1,00,000
Legal expenses incurred for issue of capital	30,000
Interest paid on unpaid purchase price of business assets	15,000
Cost of goods purchased from Y Co. Ltd. which was paid by bearer cheque	50,000
Sales include sale of gold not being stock in trade (indexed cost of acquisition ₹ 1,70,000)	2,00,000
Rent received from Staff for the quarters allotted	75,000
Rent received for commercial property rented to a foreign bank	1,50,000
Expenditure on scientific research include cost of land ₹ 30,000 and ₹ 20,000 paid to approved national laboratory. Land revenue in connection with worker's quarters and let-out commercial property (paid on June 15,2013)	12,000

Calculate Taxable Income of the company for the Assessment Year 2014-15. The answer should clearly indicate the basis for treatment of each item. [7]

4. (a) Compute taxable value and service tax from following sums received by M/s. ABC Medical Centre (exclusive of service tax) (Ignore small service provider's exemption) -
- (1) Testing (with Transmission of medical samples between laboratories): ₹ 6 lakh ;
- (2) Medicines consumed as a part of health care services : ₹ 5 lakh ;
- (3) Preventive health care services : ₹4 lakh ;
- (4) Treatment along with Facilities provided such as TV, AC, room rent, meal to patient (as a part of package): ₹33 lakh ;

MTP_Final_Syllabus 2012_Dec2014_Set 1

- (5) Genetic affinity examination for determining biological father : ₹4 lakh ;
 (6) Hair transplant services due to injury in a fire accident: ₹7 lakh ;
 (7) Cosmetic surgery of a film star : ₹16 lakh ;
 (8) Conducting medical examinations of individuals : ₹1 lakh [5]

(b) AB 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: ₹ 50 lakh;
 (2) Additions and alterations to damaged structures on land to make them workable: ₹ 25 lakhs;
 (3) Supply along with erection, commissioning and installation of plants: ₹ 72 lakhs;
 (4) Maintenance and repair of goods: ₹ 40 lakhs;
 (5) Maintenance and repair of immovable property: ₹ 30 lakhs;
 Compute taxable value and service tax thereon. [5]

(c) "Duty drawback rates are of following types – (A) All Industry Rate (B) Brand Rate and (C) Special Brand Rate." — Describe. [4]

5. (a) The book profits of Star Heights Ltd., for the previous year 2013-14 computed in accordance with Section 115JB is ₹ 37.50 Lakhs. If the total income computed for the same period as per the provisions of the Income Tax Act, 1961 is ₹ 7.50 Lakhs, compute the tax payable by the company in the Assessment Year 2014-15. Is Star Heights Ltd. eligible for any tax credit? If so, for how many years, shall Star Heights Ltd. avail such tax credit? [5]

(b) Dream House Constructions Ltd. furnishes the following particulars of its wealth for the valuation date as on 31.03.2014:

	Particulars	₹ in lacs
(i)	Land in urban area (held as stock in trade since 1998)	70
(ii)	Motor cars (including one imported car worth ₹35lacs used for hiring)	45
(iii)	125 acres of land acquired at Ghaziabad township on 15.5.2012 for construction of commercial complex	150
(iv)	Two Residential flats of 950 sq feet each provided to 2 employees (salary of one employee exceeds ₹5 lacs per annum)	30
(v)	Farm house of 8 acres at a remote village	7
(vi)	Cash in hand as per cash book	5
Liabilities:		
(i)	Loan for purchase of land at urban area	50
(ii)	Loan for purchase of land at Ghaziabad	100
(iii)	Wealth-tax liability for A.Y. 2014-15	10
(iv)	Loan for construction of residential flats	10

Compute the net wealth of the company for the A. Y. 2014 – 2015. [5]

(c) The transfer price adopted for an international transaction of sale of goods by an Indian Company during the financial year 2013-14 is ₹35 lakhs, whilst the Arm's Length Price determined using the most appropriate method are ₹32 Lakhs and ₹42 lakhs. With reference to transfer pricing provisions, discuss whether any adjustment is required. The rate of permissible variation

MTP_Final_Syllabus 2012_Dec2014_Set 1

prescribed by the Central Government may be assumed to be, 2% of the transfer price for this class of international transaction. [4]

6. (a) Z Ltd. is engaged in the business of manufacture of computer hardware since 2006. During the previous year 2013-14, the following assets acquired put to use:

(₹ 000)

Particulars	Block 1 ₹	Block 2 ₹	Block 3 ₹
Rate Of Depreciation	15%	30%	60%
No. of assets in the block	10	10	15
Depreciated value of the block on 1.4.13	2,800	3,500	1,500
Addition of plant (during P.Y. 2013-14)			
Plant P	5,700	—	—
Plant Q	—	400	—
Plant R	—	—	1,700
Sale of old plants	500	2,870	5,200

Plants P, Q and R are acquired during May 2013 and put to use during September 2013. However, plant B is put to use in the last week of March 2014.

Find out the amount of depreciation, addition depreciation and capital Gain. [7]

(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	11,648
Direct wages & salaries	8,400
Works overheads	6,200
Quality control costs	3,500
Research and development costs	2,400
Administrative overheads	4,100
Selling and distribution costs	1,600
Realizable value of scrap	1,200

The Administrative Overheads are in relation to production activities.
Material cost includes Excise duty ₹ 1,648.

[7]

Section B

Question no. 9 is compulsory and Answer any one Question from 7 & 8.

7. Answer the following Questions [3x5=15]

(a) Mr. Vinod Dutta, an Indian resident, won a Tata Indica worth ₹ 6 Lakhs, as the first prize in a lottery. According to Section 194B of the Income Tax Act, 1961, tax has to be deducted at source from the winnings of lottery at the time of payment of the prize money.

Explain the procedure to be adopted before handing over the Tata Indica (the lottery prize) to Mr. Vinod Dutta.

- (b) Mr. Rupesh Kumar, an Indian resident, is a practicing Cost and Management Accountant. He was paid ₹90,000 on 1st September, 2013 towards fees for his professional services, without deducting tax at source. Later on, a further sum of ₹1,00,000, was due to him on 1st March, 2014, from which tax of ₹20,000 was deducted at source. The tax so deducted, was deposited on 26th June, 2014. Compute interest payable by the deductor under Section 201(1A) of the Income Tax Act, 1961.
- (c) Can the second proviso to section 32(1) be applied to restrict the additional depreciation under section 32(1)(ii) to 50%, if the new plant and machinery was put to use for less than 180 days during the previous year?

8. Answer the following Questions [8+7=15]

- (a) Whether the charges towards pre-delivery inspection and after-sale-service recovered by dealers from buyers of the cars would be included in the assessable value of cars?
- (b) In case the testing is critical to ensure marketability of manufactured product i.e. the manufacture is not complete without testing; is CENVAT credit of the testing material allowed?

9. Answer the following Questions [7+8 =15]

- (a) Mr. Sanghai had sold a commercial property, which was a long term asset and invested the same in purchase and construction of a flat in a apartment in Mumbai, within the one year of sale of asset and claimed deduction u/s 54F of Income Tax Act, but later the builder has not completed the possession of the apartment within 3 years and the apartment remained under construction even after 3 years. The period of 3 years is lapsed without any mistake of Mr. Sanghai now? Will Mr. Sanghai be liable to tax on the capital gains derived from the sale of the commercial property (or) Will Mr. Sanghai be freed from the liability of capital gains tax?
Discuss allowability of exemption u/s. 54F if builder does not complete construction of house within three Years?
- (b) Whether the transfer of goods as a contribution for capital be considered as Sale?