

**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 2015-16, unless stated otherwise.

**Section A**

**Answer any five Questions**

**(1)(a)** 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
(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.

**[6]**

**(b)** Tarun is employed with ABC Ltd. on a monthly salary of ₹25,000 per month. The company provides him with the following benefits:

- I. A company owned accommodation is provided to him in Delhi.
- II. The company has given him a housing loan of ₹5,00,000 on which it charges interest @6% per annum. The entire loan is still outstanding. (Assume the interest charged by SBI is 10% p.a.)
- III. The company gave him a gift worth ₹15,900 on his 50th birthday on 21.10.2014.
- IV. He is allowed to use the video camera belonging to the company. The company had

## MTP\_Final\_Syllabus 2012\_June15\_Set 1

---

purchased this camera for ₹60,000 on 1.5.2010. This camera was sold to him on 1.8.2014 for ₹30,000

- V. The company had purchased a car on 16.7.2011 for ₹2,50,000. This car is sold to Tarun on 14.7.2014 for ₹80,000. The car was not being used by Tarun.
- VI. The company pays the telephone bills of ₹24,000 for the telephone installed at the residence of Tarun.

Compute the Gross income from salary of Tarun for the assessment year 2015-16. **[8]**

**(2)(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 is Independent Professional Audit in the context of VAT? **[2]**

**(c)** 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. **[8]**

**(3)(a)** Your client company is a subsidiary of a foreign company, having its registered office in India. This company has transaction of imports of raw materials and components and also exports of its manufacture components from & to holding company in Netherland and also other group companies in South East Asian countries. What are income tax regulations governing such international transactions? **[4]**

**(b)** One of the methods for determining Arm's Length Price is Resale Price Method (RPM). State the applicability of RPM. **[4]**

## MTP\_Final\_Syllabus 2012\_June15\_Set 1

---

**(c)** 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.

**[6]**

**(4)(a)** A commodity is imported into India from a country covered by a notification issued by the Central Government under section 9A of the Customs Tariff Act, 1975. Following particulars are made available:

CIF value of the consignment: US\$ 30,000

Quantity imported: 600 kgs.

Exchange rate applicable: ₹ 50 = US\$ 1

Basic customs duty: 20%.

Education and secondary and higher education cess as applicable.

As per the notification, the anti-dumping duty will be equal to the difference between the costs of commodity calculated @ US\$70 per kg. and the landed value of the commodity as imported. Appraise the liability on account of normal duties, cess and the anti-dumping duty.

Assume that only 'Basic Customs Duty' (BCD) and education and secondary and higher education cess are payable.

**[6]**

**(b)** 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:

- (a) What is the value to be taken as assessable value?
- (b) What is the rate of excise duty applicable and duty payable on above transaction?
- (c) 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]**

## MTP\_Final\_Syllabus 2012\_June15\_Set 1

(c) 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]**

**(5)(a)** 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.

**[8]**

**(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]**

## MTP\_Final\_Syllabus 2012\_June15\_Set 1

**(6)(a)** 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.

**[6]**

**(b)** 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.

**[3]**

**(c)** PQR Ltd. enters into a contract with TBZ Ltd. for construction of a new building primarily for the purpose of commerce or industry for a total consideration of ₹ 370 lakhs on 02-04-2013. The relevant details are given as under –

Stage	Date [Expected]	Date of issuance of invoice	Date of Payment	Amount of Payment (₹)
Initial/Booking	02-04-2014	02-04-2014	02-04-2014	50 lakhs
50% completion of building [after getting certificate from the stipulated Chartered Engineer]	14-10-2014	20-10-2014	26-10-2014	120 lakhs
75% completion of building [after getting certificate from the stipulated Chartered Engineer]	22-02-2015	24-03-2015	26-03-2015	110 lakhs
100% completion of building [after getting certificate from the stipulated Chartered Engineer]	30-07-2015	20-08-2015	10-08-2015	90 lakhs

Determine the Point of Taxation in respect of each of above stage of completion.

**[5]**

**Section B**

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

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

- (a) Whether the refund collected illegally by the assessee by producing bogus TDS certificates can be treated as income of the assessee?
- (b) Can winnings of prize money on unsold lottery tickets held by the distributor of lottery tickets be assessed as business income and be subject to normal rates of tax instead of the rates prescribed under section 115BB?
- (c) Assessing Officer imposed penalty under section 271(1)(c) upon assessee on account of disallowance of bad debt - Tribunal deleted penalty holding that it was a case of difference of opinion on allowability of certain deductions and in absence of any material to indicate any dishonest attempt on part of assessee to conceal income, no penalty could be imposed - Whether Tribunal was justified in deleting penalty?

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

- (a) In case of a specific entry viz-a-viz a residuary entry, which one should be preferred for classification purpose? **[8]**
- (b) The assessee claimed the CENVAT credit on the duty paid on capital goods which were later destroyed by fire. The Insurance Company reimbursed the amount inclusive of excise duty. Is the CENVAT credit availed by the assessee required to be reversed? **[7]**

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

- (a) 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? **[7]**
- (b) Rate of service tax prevailing at time of providing service is relevant under the erstwhile regime, not on the date of receipt of payment – TRU Instruction dated April 28, 2008 clarifying to the contrary quashed. **[8]**