

Paper 16 – Tax Management and Practice

Full Marks: 100

Time allowed: 3 hours

Answer Question No. 1 which is compulsory and any five from the rest

1.(a) Fill in the blanks:

[5×1=5]

- (i) Normally, the purchasing dealer has to issue C Form to the selling dealer, once in _____ months under the CST Act.
- (ii) Leasing of machinery with transfer of right to use _____ (is/is not) liable to service tax.
- (iii) Service provided by an Indian company to another Indian company by way of undertaking repairs to machinery located in Singapore _____ (taxable /not taxable) for levy of service tax purposes.
- (iv) Monetary limit of disposing of a case by a single member bench of ITAT is _____.
- (v) An application referred to in section 270AA(1) shall be made within _____ from the end of the month in which the order referred to in section 270AA(1)(a) has been received and shall be made in such form and verified in such manner as may be prescribed.

(b) Choose the most appropriate alternative:

[5×1=5]

- (i) Service tax was levied by the Central Government by drawing power from:
 - (A) Entry 97 of the Union List.
 - (B) Entry 85 of the Union List.
 - (C) Entry 83 of the Union List.
 - (D) Entry 82 of the Union List.
- (ii) The excise duty paid at the time of purchase of Lubricating oil – ₹ 2,000 and Pollution control equipment – ₹ 22,000 by a non-SSI unit. Total Cenvat credit admissible in the current year is:
 - (A) ₹ 2,000
 - (B) ₹ 22,000
 - (C) ₹ 13,000
 - (D) ₹ 11,000
- (iii) Mr. A purchases the goods from a manufacturer for ₹ 1,000 plus VAT @4%. If he, sell the same by adding ₹ 200 profit, his net VAT payable will be:
 - (A) 48
 - (B) 8
 - (C) 40
 - (D) None of the above.
- (iv) The provision of advance ruling is covered under section _____.
 - (A) 237 to 241
 - (B) 245A to 245L
 - (C) 245N to 245V
 - (D) 246 to 264
- (v) Maximum qualifying limit for deduction u/s 80CCC is
 - (A) 50,000
 - (B) 1,00,000
 - (C) 1,50,000
 - (D) None of the above.

(c) State true or false with reasons:

[5×2=10]

- (i) Section 14A of Central Excise Act deals with CENVAT Credit Audit.

MTP_Final_Syllabus 2012_Jun2017_Set 2

- (ii) Service provided by a private transport operator to a school in relation to transportation of students to and from a school is a taxable service.
- (iii) An area beyond 200 nautical miles from the base line is called High Seas.
- (iv) The valuation officer to estimate the fair market value of the property provisionally attached and submit a report of the estimate within 30 days if reference is made by A.O.
- (v) Is failure to record investments in the books of account falls under misreporting of income referred to in section 270A(8).

2. M/s. HIG, a firm, consisting of three partners namely, H, I and G, carried on the business of purchase and sale of television sets in wholesale and manufacture and sale of pens under a deed of partnership executed on 1-4-2010. H, I and G were partners in their individual capacity. The deed of partnership provided for payment of salary amounting to ₹ 2,00,000 each to H and G who were the working partners. A new deed of partnership was executed on 1-10-2016 which, apart from providing for payment of salary to the two working partners as mentioned in the deed of partnership executed on 1-4-2010 for the first time provided for payment of simple interest @ 12% p.a. on the balance standing to the credit of the Capital accounts of partners from 1-4-2016. The firm was dissolved on 31-3-2017 and the Capital assets of the firm were distributed amongst partners on 20-4-2017. The net profit of the firm for the year ending 31-3-2017 after payment salary to the working partners and debt /credit of the following items to the Profit and Loss Account was ₹ 1,50,000:

- (i) Interest amounting to ₹ 1,00,000 paid to the partners on the balances standing to the credit of their capital accounts from 1-4-2016 to 31-3-2017.
- (ii) Interest amounting to ₹ 50,000 paid to the partners on the balance standing to the credit of their current accounts from 1-4-2016 to 31-3-2017.
- (iii) Interest amounting to ₹ 20,000 paid to the Hindu undivided family of partner H @ 18 p.a.
- (iv) Payment of ₹ 25,000 towards purchase of television sets made by crossed cheque on 1-11-2016.
- (v) ₹ 30,000 being the value of gold jewellery received as gift from a manufacturer for achieving sales target.
- (vi) Depreciation amounting to ₹ 15,000 on motor car bought and used exclusively in the name of business purposes, but not registered in the name of the firm,
- (vii) Depreciation under section 32(1)(ii) amounting to ₹ 37,500 of new machinery bought and installed for manufacture of pens on 1-11-2016 at a cost of ₹ 5,00,000. There was no increase in the installed capacity as a result of the installation of the new machinery.
- (viii) Interest amounting to ₹ 25,000 received from bank on fixed deposits made out of surplus funds.

The firm furnishes the following information relating to it:

- a) Closing stock-in-trade was valued at ₹ 60,000 as per the method of lower of cost or market rate consistently followed by it. The market value of the closing stock-in-trade was ₹ 65,000.
- b) Brought forward business loss relating to the assessment year 2016-17 was ₹ 50,000.
- c) The fair market value of the capital assets as on 31-3-2017 was ₹ 20,00,000 and the cost of their acquisition was ₹ 15,00,000.

Compute the total income of M/s. HIG for the assessment year 2017-18. You are required to furnish explanations for the treatment of the various items given above. **[16]**

3.(a) 'X' Ltd., transferred its fertilizer business to a new company 'Y' Ltd., by way of demerger with effect from appointed date of 1.4.2016 after satisfying the conditions of demerger. Further information given:

MTP_Final_Syllabus 2012_Jun2017_Set 2

- (a) WDV of the entire block of plant and machinery held by 'X' Ltd. as on 1.4.2016 is ₹ 100 crores;
 (b) Out of the above, WDV of block of plant and machinery of fertilizer division is ₹ 70 crores;
 (c) 'X' Ltd. has unabsorbed depreciation of ₹ 50 lakhs as at 31.3.2016;

On the above facts:

- (i) You are required to explain the provisions of the income-tax as to the allowability of depreciation, post-merger, in the hands of 'X' Ltd. and 'Y' Ltd. as at 31.3.2017 duly calculating the depreciation.
 (ii) State how the unabsorbed depreciation has to be dealt with for the assessment year 2017-18. **[8]**

- (b)** ABC Limited was amalgamated with XYZ Limited on 01-04-2016. All the conditions of section 2(1B) were satisfied, ABC Limited has the following carried forward losses as assessed till the Assessment Year 2016-17:

(i) Speculative Loss	₹ 4 lakhs
(ii) Unabsorbed Depreciation	₹ 18 lakhs
(iii) Unabsorbed expenditure of capital nature on scientific research	₹ 2 lakhs
(iv) Business Loss	₹ 120 lakhs

XYZ Limited has computed a profit of ₹ 140 lakhs for the financial year 2016-17 before setting off the eligible losses of ABC Limited but after providing depreciation at 15% per annum on ₹150 lakhs, being the consideration at which plant and machinery were transferred to XYZ limited, The written down value as per income-tax record of ABC Limited as on 31.3.2016 was ₹ 400 lakhs.

The above profit of XYZ Limited includes speculative profit of ₹ 10 lakhs. Compute the total income of XYZ Limited for Assessment Year 2017-18 and indicate the losses /other allowances to be carried forward by it. **[8]**

- 4.(a)** State the benefits available to EOU/ EHTP/ STP/ BTP in the context of foreign trade policy 2015-20. **[8]**

- (b)** Assessment of Bhajan Ltd. was completed u/s 143(3) with an addition of ₹ 15 lakhs to the returned income. The assessee-company preferred appeal before the Commissioner (Appeals) which is pending now.

In this backdrop, answer the following:

- (i) Can the assessee-company seek revision u/s 264 in respect of matters other than those preferred in appeal?
 (ii) Can the Commissioner make a revision u/s 263 both in respect of matters covered in appeal and other matters? **[8]**

- 5.(a)** M/s. Kalaji Manufacturers & Exporters Pvt. Ltd. furnishes following information and requests you to compute the maximum refund eligible under Rule 5 of CENVAT Credit Rules for the relevant period (amounts in ₹) :

(i)	Total CENVAT Credit taken on inputs	2,50,000
(ii)	Amount of CENVAT credit reversed under Rule 3(5C)	50,000
(iii)	Total CENVAT Credit taken on input services	80,000
(iv)	Total CENVAT Credit taken on capital goods	2,00,000
(v)	Value of final products exported without payment of duty	6,00,000
(vi)	Value of goods cleared for home consumption	20,00,000
(vii)	Amounts received towards services exported (includes ₹ 50,000 of advance towards services to be provided/exported after the current relevant period)	2,50,000
(viii)	Value of other services provided	2,00,000
(ix)	Value of inputs removed as such under Rule 3(5)	30,000

[8]

- (b)** Compute the assessable value and total customs duty payable under the Customs Act, 1962 for an imported machine, based on the following information:

MTP_Final_Syllabus 2012_Jun2017_Set 2

	US \$
(i) Cost of the machine at the factory of the exporter	20,000
(ii) Transport charges from the factory of exporter to the port for shipment	800
(iii) Handling charges paid for loading the machine in the ship	50
(iv) Buying commission paid by the importer	100
(v) Lighterage charges paid by the importer	200
(vi) Freight incurred from port of entry to Inland Container depot	1,000
(vii) Ship demurrage charges	400
(viii) Freight charges from exporting country to India	5,000
Date of bill of entry	20.01.2016 (Rate BCD 20%;
Exchange rate as notified by CBEC	₹ 60 per US \$)
Date of entry inward	25.03.2016 (Rate of BCD 12%;
Exchange rate as notified by CBEC	₹ 65 per US \$)
Additional duty payable under section 3(1) of the Customs Tariff Act, 1975	12.5%
Additional duty payable under section 3(5) of the Customs Tariff Act, 1975	4%

[8]

- 6.(a)** Rana Pvt. Ltd. is engaged in providing the taxable services. Compute the value of taxable service and the service tax payable by it in the month of June 2016 from the information furnished below:

Receipts	₹
Free Services provided to friend of director (Similar services are rendered for consideration of ₹1,00,000).	Nil
Subsidy received from Government for making investment in backward area	1,00,000
Interest received from client who has not made timely payment of service	2,00,000
For free service rendered to customers, amount reimbursed by the manufacture of such product	50,000
Other taxable services provided during the month	15,00,000

Note: Rana Pvt. Ltd. is eligible for small service providers' exemption under Notification No. 33/2012-ST, dated 20-06-2012.

All the above amounts are exclusive of service tax.

[8]

- (b)** Mrs. Vasudha, a registered dealer in Chennai, furnishes the following information relating to Inter-state sales made by her during the year ended 31.3.2016:

	₹
Sales turnover as per books	36,72,000
Above includes	
(i) Excise duty	3,20,000
(ii) Freight (of this ₹ 30,000 alone is shown separately in sales invoices)	1,10,000
(iii) Deposit for returnable containers	2,40,000
(iv) Transfer to branch (covered by Form F)	12,15,000
(v) Packing charges	35,000

Further, in ascertaining the sales turnover above which includes CST also, the dealer has deducted the following:

1. Turnover relating to goods worth ₹ 10,000 (exclusive of tax) covered by invoice dated 2.4.2015, which were returned on 1.10.2015.
2. Goods worth ₹ 12,400 (including tax) covered by invoice dated 13.4.2015 were rejected by the customer and the dealer received back the goods on 14.10.2015.

Vasudha deals only in one type of commodity which is chargeable to VAT at 2% in Tamil Nadu.

You are required to compute the total turnover, CST and taxable turnover for the financial year 2015-16. Treatment of each item above should be shown distinctly. **[8]**

7.(a) Sanvitha Medicos Pvt. Ltd., proposes to manufacture a skin ointment, which will be available in all stores and super markets, across the counter, without a prescription of a doctor or medical practitioner. The company wishes to know whether the product will be classified as a cosmetic or medicament, for central excise purposes, merely on this ground. Advise the company suitably. **[10]**

(b) Kalyani Hotels (P) Ltd. is of the opinion that the value of service provided in restaurants and those provided in outdoor catering should be the same and therefore valuing them differently at 40% and 60% of the total amount respectively is incorrect. Discuss with an appropriate case law. **[6]**

8.(a) A Ltd is an Indian Company which is a 100% Subsidiary of B Ltd, a Foreign Company. B Ltd sells its products to A Ltd at \$15 per unit. At the same time, it sells its products to an Unrelated Party at \$20 per unit. How will the ALP be determined in this transaction? In the above example, if A Ltd is the Sole Selling Agent of the products of B Ltd, and A Ltd resold the goods at \$ 20, how will the Arm's Length Price be determined in this transaction? **[8]**

(b) Boulevard Inc. a French Company, holds 40% of Equity in the Indian Company Vista Technologies Ltd (VTL). VTL is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes Boulevard Inc.

During the year, VTL had spent 2,000 Man Hours for developing and maintaining software for Boulevard Inc, with each hour being billed at ₹ 1,250. Costs incurred by VTL for executing work for Boulevard Inc. amount to ₹ 18,00,000.

VTL had also undertaken developing software for Bal Industries Ltd for which VTL had billed at ₹ 2,700 per Man Hour. The persons working for Bal Industries Ltd and Boulevard were part of the same team and were of matching credentials and caliber. VTL had made a Gross Profit of 50% on the Bal Industries work.

VTL's transactions with Boulevard Inc. is comparable to transactions with Bal Industries, subject to following differences –

- (a) Boulevard gives technical knowhow support to VTL which can be valued at 8% of the Normal Gross Profit. Bal Industries does not provide any such support.
- (b) Since the work for Boulevard involved huge number of man hours, a quantity discount of 14% of Normal Gross Profits was given.
- (c) VTL had offered 90 Days credit to Boulevard the cost of which is measured at 2% of the Normal Billing Rate. No such discount was offered to Bal Industries Ltd.

Compute ALP and the amount of increase in Total Income of Vista Technologies Ltd. **[8]**