

PAPER – 16: Tax Management and Practice

PTP_Final_Syllabus 2012_Dec2015_Set 2

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
	APPLICATION How you are expected to apply your knowledge	Illustrate	Use an example to describe or explain something
		Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
	ANALYSIS How you are expected to analyse the detail of what you have learned	Tabulate	Arrange in a table
		Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Produce	Create or bring into existence
		Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Decide	To solve or conclude	
	Advise	Counsel, inform or notify	
	Evaluate	Appraise or asses the value of	
		Recommend	Propose a course of action

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) Compute the deduction allowed under section 80C and the net-tax payable by 'A' from the following information submitted by him for the assessment year 2015-16:

		(₹)
1	Gross Salary	4,50,000
2	Royalty (Gross)	27,000
3	Expenses allowable from royalty	5,000
4	Interest on fixed deposits with bank (gross)	13,000
5	LIP on his own life (sum assured ₹ 20,000) policy issued on 01.04.2013	6,000
6	LIP on the life of his wife	2,000
7	LIP on the life of his major son (not dependent on 'A')	2,500
8	LIP on the life of dependent brother	2,000
9	Contribution to a Recognised Provident Fund	20,000
10	Amount deposited in PPF Account	65,000
11	Contribution to ULIP	3,000
12	Repayment of housing loan taken from LIC (principal amount ₹ 23,000 and interest ₹ 30,000)	53,000
13	Subscription to National Saving Certificate IXth issue	25,000
14	Amount incurred on the education of:	
	(a) Child X ₹ 14,000	
	(b) Child Y ₹ 7,000	
	(c) Child Z ₹ 5,000	
15	Term deposit for 5 years with a schedule bank	20,000
16	Five year time deposit in Post Office	15,000

He has taken the loan from LIC for construction of a residential house property which was completed in 2012 and which is being utilized by 'A' from his own residence. **[5]**

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(b) X (42 years) gives the following information for the previous year 2014-15:

- (1) On 01.12.2014, he get gift of House A from his friend B (stamp duty value is determined at ₹6,00,000).
- (2) On 03.12.2014, he gets gift of House B from C (who is father-in-law of his elder brother) (stamp duty value is ₹40,000, however, current market value is ₹65,000).
- (3) On 07.12.2014, X purchases a second hand car for ₹ 70,000 from D (market value is however, ₹3,00,000).
- (4) On 14.12.2014, X purchases a work of art for ₹5,00,000 from E (fair market value is ₹5,30,000).
- (5) On 20.12.2014, X purchases jewellery for ₹7,00,000 from F (fair market value is ₹7,25,000). F is not a registered dealer.
- (6) On 21.12.2014, X purchases a painting for ₹4,00,000 from G (who is brother of Mrs. X) (fair market value is ₹7,00,000).
- (7) On 24.12.2014, X purchase a commercial property for ₹75,00,000 from H (fair market value is ₹90,00,000).
- (8) On 25.12.2014, X gets a gift of 100 preference shares in A Ltd. from J (on 25-12-2014, stock exchanges are closed, the lowest quotation on the immediate preceding working day in National Stock Exchange is ₹45).
- (9) On 25.01.2015, X gets a gift cheque of ₹1,00,000 from his friend L on his birthday.
- (10) On 28.01.2015, minor son of X gets the gift of ₹55,000 from elder brother of X's grandfather).
- (11) X contributes ₹10,000 in the public provident fund account of his dependent mother.

Determine the amount of net income of X for the assessment year 2015-16.

[4]

(c) The Total Income of Mrs. A, resident in India, compute for assessment year 2015-16 is ₹3,20,000 which includes long-term capital gains of ₹ 30,000 and winning of lotteries ₹ 20,000 and short-term capital gain covered under section 111A ₹ 10,000. Compute the tax payable assuming his agricultural income for the previous year was ₹ 2,50,000.

[3]

(d) An Assessing Officer makes a best judgment assessment for failure to comply with a notice u/s 143(2), without any further notice to the Assessee. What are the remedies available to him?

[2]

(2)(a) From the following particulars arrive at the VAT liability for the month of January 2015 and also determine the amount of input tax credit to be carried forward for the next month: (I) Input tax rate 5% and output tax rate is 15% in the State, (II) Inputs purchased in the month from within the State – ₹48,00,000. (III) Output sold to buyers within the State during the month – ₹ 15,00,000. (IV) Output sold during the month to buyers as interstate sales – ₹3,00,000. (CST rate 2% against C Form) (V) Inputs purchased from other States as interstate purchases against C Form @2% - ₹ 2,00,000 (Provide suitable explanations where required with appropriate assumptions if necessary).

[3]

(b) Gross Inter State sales of ZX Co. Ltd., Patna, Bihar; were ₹ 18,00,000 during 14-15 (April 14 - March 15). CST was not shown separately in Invoice. Other information is as follows :

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- (A) The sales are of product 'P'. If the product is sold within State of Bihar, sales tax rate is 8%.
- (B) Sale of ₹8 lakhs are inclusive of erection expenses of ₹1,00,000, excise duty of ₹ 76,000 and packing charges of ₹25,000. The sale price is also inclusive of trade discount of ₹30,000, which has been later given by issuing a Credit Note. Buyers of these goods have issued form 'C' for these purchases.
- (C) Balance sale of ₹ 10 lakhs are inclusive of excise duty of ₹95,000 and outward freight of ₹21,000. The freight was charged separately in Invoice. Buyers of these goods have not issued any declaration under Central Sales Tax Act. Out of these sales, goods of ₹2 lakhs were returned by customers. The goods were dispatched in February 15 and returned in June 15, i.e. after end of the accounting year.
- Find the turnover and CST payable. **[3]**

- (c) AB Ltd. has submitted following quotation to CD Ltd. for supply of 250 Xenon Processor Computers

CPU	₹ 21,000
Monitor	₹ 11,500
Cordless Keyboard & Mouse	₹ 6,000
Other Peripherals	₹ 6,500
Labour & Overheads	₹ 8,000
Profit	₹ 7,000
Total Price per unit	₹ 60,000

Terms: Delivery within one month from the date of receipt of the firm order.

CD accepts the quotation after the following alterations which are agreed to by AB Ltd. –

- Keyboard would be supplied free of cost by CD to AB since Eudora Ltd. is able to purchase the Keyboard for ₹3,000 per unit.
- Profit charged by AB Ltd. is to be reduced to ₹5,500, since CD would make an advance of ₹ 30,000. However, no interest is payable on the advance.

Determine the Assessable Value u/s 4 of the Central Excise Act, 1944, and the Excise Duty @ 12% Ad Valorem. Ignore Cess. **[4]**

- (d)(i) Abhi is doing only job work by charging ₹20 per product. The cost of materials supplied to him for the job work is ₹100 per product. From Abhi's factory, the principal manufacturer sells the goods at ₹200 per product to unrelated buyers. Calculate the excise duty payable @ 12.36%. **[2]**

- (ii) Compute assessable value and amount of excise duty payable under the Central Excise Act, 1944 and rules made there under from the following information:

Particulars	No. of Units	Price at Factory Per Unit	Price at Depot Per Unit	Rate of Duty Ad valorem
(i) Goods transferred from factory to depot on 8th February	1,000	₹200	₹220	10%
(ii) Goods actually sold at depot on 18th February	750	₹225	₹250	8%

[2]

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(3)(a) 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 -

- (i) 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.
- (ii) Since the work for Boulevard involved huge number of man hours, a quantity discount of 14% of Normal Gross Profits was given.
- (iii) 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. **[4]**

(b) Kio Japan and AB Ltd, an Indian Company are Associated Enterprises. AB Ltd manufactures Cellular Phones and sells them to Kio Japan and Geel, a Company based at Beijing. During the year AB Ltd supplied 2,50,000 Cellular Phones to Kio Japan at a price of ₹ 3,000 per unit and 35,000 units to Geel at a price of ₹ 4,800 per unit. The transactions of AB Ltd with Kio and Geel are comparable subject to the following considerations -

- (i) Sales to Kio is on FOB basis, sales to Geel are CIF basis. Freight and Insurance paid by Kio for each unit is ₹ 700.
- (ii) Sales to Geel are under a free warranty for Two Years whereas sales to Kio are without any such warranty. The estimated cost of executing such warranty is ₹ 500.
- (iii) Since Kio's order was huge in volume, quantity discount of ₹ 200 per unit was offered to it.

Compute Arm's Length Price and amount of increase in Total Income of AB Ltd, if any, due to such Arm's Length Price. **[4]**

(c)(i) Compute value of taxable services of transport of passengers by air from the following data relating to sums received exclusive of service tax -

- (1) Passengers embarking at Assam : ₹ 10 lakh ;
- (2) Passengers where journey terminated at Manipur : ₹4 lakh ;
- (3) Amount charged from passengers for flights starting from Dubai to Delhi: ₹400 lakh ;
- (4) Amount charged from passengers from flights starting from Delhi to Dubai: ₹540 lakh (including passenger taxes levied by government and shown separately on ticket: ₹140 lakh).

Compute value of taxable services and service tax thereon, assuming that airlines has opted to pay service tax on abated value. **[3]**

(ii) Mr. Roy, an Output Service Provider, deposited the Service Tax amounting to ₹ 20 Lakh on 09-06-2014 for the quarter ending December 2013. Compute the amount of interest

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payable by Mr. Roy assuming he deposits Service Tax electronically, and his Value of Taxable Service in 2012-13 was ₹80 Lakh. Explain whether there would be any difference in the rate of interest if his Value of Taxable Services was as follows:

2012-13	₹ 59 Lakhs
2013-14	₹ 48 Lakhs
2014-15	₹ 54 Lakhs

[3]

(4)(a) Sonal Containers imported by air from USA certain goods at CIF Value \$ 8,400. Air Freight US \$1,600 and Insurance Charges US \$800 were also paid. Bill of Entry was presented on 28th February, but the date of arrival of the aircraft was 10th March. Other relevant information is as follows:

	As on 28th February	As on 10th March
		Rates of Exchange
As announced by CBEC US \$ 1	₹48.50	₹48.20
As announced by RBI US \$ 1	₹48.90	₹48.50
		Rates of Customs
Basic Customs Duty	14%	16%
Additional Customs Duty	10%	10%
Special Additional Duty u/s 3(5)	4%	4%

The same goods are exempt from excise duty in India, if manufactured without the aid of power.

Compute A.V. and amounts of Basic, Additional and Special Additional Duty to be adopted.

[4]

(b) Describe the types and usage of bill of entry in case of entry of goods on importation. **[2]**

(c) State the salient features of reward schemes mentioned under duty remission scheme. **[4]**

(d) M/s. Ram & Co. Ltd., a manufacturer of dutiable as well as exempted goods and also a provider of taxable as well as exempted services, furnishes the following information (₹ in lakhs) :

Particulars	Financial year 13-14	For month of April, 2014
(1) Value of exempted goods removed @ ₹ 650 per unit	585	65
(2) Value of dutiable goods removed	400	50
(3) Value of exempted services provided	250	30
(4) Value of taxable services provided	500	60
(5) Credit of input services, commonly used for all goods & services, taken	-	₹ 2,24,720
(6) Credit of inputs, commonly used for all goods and services, taken (80,000 units × ₹30 per unit × 12.36%)	-	₹ 2,96,640

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You are required to compute the provisional amount of proportionate credit reversible under Rule 6(3A) of the Cenvat Credit Rules, 2004 for the month.

Given that for every unit of exempted goods, two units of inputs are required.

[4]

(5)(a) X came to India from America for the first time on 10.10.2014. he returns to his home country after staying in India upto 05.07.2015. Will he be a resident in India for the assessment year 2015-16? **[3]**

(b) Mr. A is employed with ABC Ltd. on a basic salary of ₹ 30,000 per month. He is also entitled to a dearness allowance of 20% of basic salary. 70% of the dearness allowance is included in salary for retirement benefits. The company gives him HRA of ₹ 15,000 per month. With effect from 01.01.2015 he receives an increment of ₹ 5,000 in his basic salary. During the previous year 2014-15 he has received arrears of salary pertaining to earlier years amounting to ₹ 40,000.

X was staying with his parents till 31.10.2014. From 01.11.2014 he takes an accommodation on rent in Delhi and pays ₹ 12,500 per month as rent for the accommodation.

Compute his gross salary for the assessment year 2015-16.

[5]

(c) R has 9 house properties situated at Delhi.

Property A is let out for business

Property B is let out for residential purposes

Property C has four identical units:

Unit P – Let out for residential purposes throughout the previous year

Unit Q – Used for own business

Unit R – Used for own residence

Unit S – Let out for residential purposes; but w.e.f. 01.01.2015 was also used for own residence.

The particulars of property A and B are as under:

	Property A (₹)	Property B (₹)
Municipal Value	50,000	60,000
Actual rent	5,000 P.M.	6,000 P.M.
Fair Rent	70,000	
Standard Rent	54,000	
Date of completion of construction	01.03.2007	01.03.1992
Municipal tax paid	10,000	20,000
Repairs	5,000	---
Collection charges	4,800	4,800
Insurance premium paid	2,000	2,000
Interest on money borrowed for construction	30,000	11,000

R had borrowed a sum of ₹ 3,00,000 @ 10% per annum on 01.01.2006 for construction of House – A. the entire loan is still outstanding through interest is being paid every year.

The particulars of Property –C are as under:

Date of completion of construction	01.03.1993
Date of purchase by R	01.05.1994

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	₹
Municipal Value	1,60,000
Rent of Unit – P	3,000 p.m.
Rent of Unit – S	3,000 p.m.
Municipal tax paid	20,000
Other expense:	
Repair of Unit – P	5,000
Repair of Unit – Q	10,000
Collection charges of Unit - P	3,000
Collection charges of Unit – S	2,400
Insurance premium of house property	3,000
Interest on money borrowed for purchase of house	40,000
Lease rent of land of house property	5,000

Compute the income of R under the head 'Income from house property' for the assessment year 2015-16. **[6]**

(6)(a) From the following particulars, calculate the taxable income for the assessment year 2015-16.

	₹
Salary per month	16,000
Dearness Allowance per month	6,000
Medical bill reimbursed (out of which ₹ 14,000 is treatment of specified ailment in a hospital approved by the Principal Chief Commissioner or Chief Commissioner)	42,000
Free telephone at residence	12,000
House Rent Allowance per month (Rent Paid ₹ 15,000 p.m. for a house in Delhi)	10,000

House property is let out on a monthly rent of ₹ 2,000. The annual value of the house property is ₹30,000. Municipal tax paid is ₹ 1,800 for whole year. Re-payment of house building loans taken from friends is ₹ 5,000 and from Life Insurance Corporation is ₹ 9,000 (which includes ₹ 6,000 on account of interest)

	₹
Interest on Savings Bank A/c	44,000
Interest on P.P.F. A/c.	2,000
Income from units of Unit Trust of India	800
Life Insurance Premium	6,000
Contribution to Public Provident Fund	6,000
Deposit in account under national Savings Scheme, 1992	10,000
Interest accrued on (NSC VIII Issue)	34,000

The construction of the building was completed on 01.01.1992. **[6]**

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- (b) A Ltd. have received services from a foreign company. Under the agreement, they are liable to pay know-how charges tax free. TDS @ 40% is liable to be made under Income-tax law. The sum paid tax-free : ₹588 ; rate of TDS : 41.2% and service tax: 12.36%. Compute the amount of service tax payable. **[3]**
- (c) AM Ltd. of Mumbai (having diversified business) has provided the following services, whose values are listed below. Compute its service tax liability:
1. Services provided to a company located in Dubai in relation to organization of a festival celebration event in Dubai India : ₹ 4 lakh ;
 2. Services provided to a company located in Jammu in relation to fashion show in Jammu : ₹ 3 lakh;
 3. Services provided to a company located in Delhi in relation to fashion show in Jammu : ₹3 lakh.
 4. Services of allowing downloading of digital content from its website : ₹ 10 lakhs (out of this, ₹ 2 lakh was provided to recipients located outside India). **[5]**

Section B

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

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

- (a) Is abkari licence covered under section 32(1)(ii) and eligible for depreciation @ 25% of written down value? **[5]**
- (b) Is the commission paid to doctors by a diagnostic centre for referring patients for diagnosis be allowed as a business expenditure under section 37 or would it be treated as illegal and against public policy to attract disallowance? **[5]**
- (c) Where the provision for bad and doubtful debts under section 36(1)(viii) relates to rural advances, can deduction for actual write off under section 36(1)(vii) in respect of urban advances be restricted to the amount in excess of the credit balance in the provision for bad and doubtful debts made under section 36(1)(viii)? **[5]**

8. Answer the following Questions [5x3=15]

- (a) Section 4A of the Central Excise Act, 1944 is applicable only in respect of those goods for which there is a requirement of declaration of MRP under the provisions of the Standards of Weights and Measures Act, 1976 and the rules made thereunder. **[5]**

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(b) Does the process of removal of foreign materials from iron ore for concentration of such ore amount to manufacture? **[5]**

(c) Whether the addition and mixing of polymers and additives to base bitumen results in the manufacture of a new marketable commodity and as such exigible to Excise duty? **[5]**

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

(a) Assessee a company entered into a collaboration agreement with owner of an immovable property, who executed a General Power of Attorney (GPA) in assessee's favour - Sub-Registrar resisted to register GPA on basis of circular issued by Government of NCT of Delhi, holding that transaction was, in effect, a transaction of sale, and it was sought to evade stamp duty - Whether, circular directing Registrars not to register conveyance of immovable property based on a GPA, was contrary to observation of Supreme Court and was liable to be set aside. **[7]**

(b) Whether the metal scrap or waste generated during the repair of his worn out machineries/ parts of cement manufacturing plant by a cement manufacturer amounts to manufacture? **[8]**