

Paper 11- Indirect Taxation

PTP_Intermediate_Syllabus 2012_Dec 2015_Set 1

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 B | KNOWLEDGE | List | Make a list of |
| | What you are expected to know | State | Express, fully or clearly, the details/facts |
| | | Define | Give the exact meaning of |
| | | COMPREHENSION | Describe |
| | What you are expected to understand | Distinguish | Highlight the differences between |
| | | Explain | Make clear or intelligible/ state the meaning or purpose of |
| | | Identify | Recognize, establish or select after consideration |
| | | Illustrate | Use an example to describe or explain something |
| | | APPLICATION | Apply |
| | How you are expected to apply your knowledge | 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 |
| | | Tabulate | Arrange in a table |
| | ANALYSIS | Analyse | Examine in detail the structure of |
| | How you are expected to analyse the detail of what you have learned | 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 |
| Produce | | Create or bring into existence | |

Paper 11- Indirect Taxation

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.

All questions are compulsory. In question No. 1, all sub-questions are compulsory. In question Numbers 2 to 8, student may answer any two of the three sub-questions (a), (b) and (c).

Wherever necessary, you may make suitable assumptions and state them clearly in your answer. Working notes should form part of the answer.

1. Answer the following questions with suitable reasons: [1×20=20]
- (a) State the conditions for levy of excise duty on waste and scrap.
 - (b) Determine the point of taxation in the case when the date of completion of service is 10.05.2014, date of invoice is 30.05.2014 and the date on which payment received is 15.06.2014.
 - (c) Which form is required to be issued to exempt penultimate sale in course of inter-state sale?
 - (d) State whether renting of immovable property is a declared service or not.
 - (e) State the warehousing period for which capital goods intended for use in 100% EOU, may remain in warehouse.
 - (f) State the meaning of 'margin of dumping' in the context of customs.
 - (g) State the implication of first two characters of Tax Identification Number.
 - (h) Define 'Goods' as per CST Act.
 - (i) State when taxable event in case of export is completed.
 - (j) Mention any one item which is covered under Compounded Levy Scheme.
 - (k) A Ltd., a service provider, received subsidy from Govt. for making investment in backward areas. Discuss whether this will form the value of taxable service or not.
 - (l) State the place of provision of service related to passenger transportation.
 - (m) Whether serving of food in a restaurant without air-condition facility is exempted from service tax or not?
 - (n) The Central Excise Tariff Schedules are divided into four column headings. Two of them are description of goods, standard unit of quantity. State the rest two.
 - (o) Define 'Normal Transaction Value' as per Rule 2(b) of Central Excise Valuation (Determination of Price of Excisable Goods), Rules.
 - (p) Differentiate direct tax and indirect tax in the context of taxable event.
 - (q) Name the legislation which governs the foreign trade.
 - (r) There are two duty exemption schemes under which an exporter can import the inputs duty free for export obligation. Mention those schemes.
 - (s) State the concept of Arm's Length Principle.
 - (t) Give an example of profit based method for determining Arm's length price.
2. Answer any two: [2×2=4]
- (a) State the constitutional power by which a State Govt. can levy taxes. Also state the entry number by which income tax other than tax on agricultural income is taxed. [1+1]
 - (b) Distinguish between Value Added Tax and Excise Duty. 2
 - (c) Write down the difference between 'levy' and 'collection'. 2
3. Answer any two: [8×2=16]
- (a) (i) Discuss the veracity or otherwise of the following:

PTP_Intermediate_Syllabus 2012_Dec 2015_Set 1

Branding/labeling of packed spices is manufacture, but branding/labeling of stainless steel screws is not manufacture. 4

- (ii) Calculate the assessable value in respect of each of the clearances given below -

| Removed to | Price at Depot as on | | Actual Sale Price at Depot on 01/02/2015 |
|----------------|----------------------|------------|--|
| | 01/02/2015 | 31/01/2015 | |
| Mysore Depot | ₹ 210/unit | ₹ 205/unit | ₹ 215/unit |
| Hosur Depot | ₹ 220/unit | ₹ 215/unit | ₹ 225/unit |
| Tirupati Depot | ₹ 230/unit | ₹ 225/unit | ₹ 235/unit |

The goods were cleared to respective Depots on 01/01/2015 and actually sold at the depots on 01/02/2015. 4

- (b) MNO Ltd. is in the manufacture of both excisable and non-excisable goods in their factory building rented by them from October 1, 2014 and have been occupying the same as a tenant. From the following particulars for the period October 1, 2014 to March 31, 2015, state with suitable explanations, whether MNO Ltd. could claim the benefit of exemption in terms of Notification No. 8/2003-CE dated 1-3-2003 for the financial year 2015-16.

| | ₹ in lakh |
|--|-----------|
| (i) Clearances of branded goods | 60 |
| (ii) Export Sales to Nepal | 80 |
| (iii) Export Sales to USA and Canada | 120 |
| (iv) Clearances of goods (duty paid passed on Annual capacity of production under Section 3A of the Central Excise Act, 1944) | 70 |
| (v) Clearances of goods subject to valuation based on retail sale price under Section 4A of the Central Excise Act, 1944 (said goods are eligible for 30% abatement) | 200 |
| (vi) Job work under Notification No. 214/86-CE. | 60 |

During the period April 1, 2014 to September 30, 2014 the previous tenant of the building presently occupied by MNO Ltd. had cleared excisable goods of the aggregate value of ₹ 120 lakhs. 8

- (c) (i) On 10-04-2014, M/s. Sheetal Packagings cleared plastic bottles whose assessable value was ₹ 20,00,000 and duty payable was ₹ 2,47,200. On 15-04-2014, the purchaser returned the plastic bottles to Sheetal Packagings. M/s. Sheetal Packaging took credit of duty of ₹ 2,47,200 on basis of invoice issued at the time of clearance of plastic bottles. The Department denies the credit on the ground that the duty on such goods has not been paid, as plastic bottles. The Department denies the credit on the ground that the duty on such goods has not been paid, as the due date for payment of duty falls on 06-05-2014. Discuss whether contention of department is correct. 5

- (ii) XYZ Ltd. paid Central Excise duty of ₹ 15,00,000 for the goods cleared in the month of December 2014 on February 26th, 2015. Arrive at the penalty under rule 8 of the Central Excise Rules, 2002 which is leviable in this case. 3

4. Answer any two:

[6×2=12]

- (a) (i) A product is liable to 12% Basic Excise Duty. However, a Notification has granted exemption to the said product, whereby the rate of Basic Excise Duty has been reduced from 12% to 8%. Further, a Special Excise Duty of 4% is also leviable on such

PTP_Intermediate_Syllabus 2012_Dec 2015_Set 1

product by virtue of a Finance Act. This product has been imported by "Y" from Brazil. Basic Customs Duty is leviable at 8%. Determine the rate of Additional Duty of Customs (ACD) leviable, on such product. **3**

(ii) HRC Co. imported a consignment of Computer Software and Manuals valued at US \$42 Lakhs and contended that the actual value was only US \$10 Lakhs while the balance amount represented License Fee for using the software at multiple locations, and as such Customs Duty is payable only on the actual value of US \$10 Lakhs. Is the contention raised by HRC Co. correct? Discuss. **3**

(b) M/s. ABC Ltd. imported machinery, which were warehoused on 1-4-2014 for a period of 7 months. An ex-bond bill of entry for home consumption was presented on 1-11-2014, which was returned to ABC Ltd. duty assessed on 3-11-2014. The duty amounting to ₹ 5 lakhs was paid on 14-11-2014. There were two holidays during the period from 3-11-2014 to 14-11-2014. The Department has demanded the following interest:

(i) Interest u/s 61(2) for storage of warehoused goods beyond statutory period provided therein; and

(ii) Interest under section 47(2) for delay in payment of duty beyond statutory period provided therein.

Compute the interest, if any, payable by M/s. ABC Ltd. Support your answer with decided case law, if any. **6**

(c) 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 \$ 25,000

Quantity imported: 500 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 cost of commodity calculated @ US \$70 per kg. and the landed value of the commodity as imported.

Calculate 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**

5. Answer any two: 4×2=8

(a) Explain the administrative authorities of Foreign Trade Policy. **4**

(b) (i) State the items which can be imported duty free against Advance Authorization. **3**

(ii) State the validity of duty credit scrip in connection to the reward scheme of Foreign Trade Policy. **1**

(c) State the salient features of Post Export EPCG (Export Promotion Capital Goods) Duty Credit Scrip. **4**

6. Answer any two: [10×2=20]

(a) (i) Determine service tax in following cases:

(1) Services valuing ₹ 5 lakhs are provided.

(2) Services are provided for a consideration inclusive of service tax of ₹ 1,12,360.

PTP_Intermediate_Syllabus 2012_Dec 2015_Set 1

- (3) Mr. Salim, an architect has received the fees of ₹ 4,50,000 after the deduction of Income Tax of ₹ 50,000. (All sums exclusive of service tax).
- (4) Mr. Shyam provided services valuing ₹ 5 lakh (excluding service tax) to Mr. Mohan. Mr. Mohan retained 10% thereof viz. ₹ 50,000 until satisfactory performance of services received and was paid after 6 months from completion of provision of service. **4**
- (ii) Compute value and service tax from following sums received by M/s. A Ltd. (exclusive of service tax) (Ignore small service provider's exemption) -
- (1) Holding a dance programme, entry tickets whereof were sold for : ₹ 50 lakh;
 - (2) Collections from a standalone ride set up in a mall: ₹ 11 lakh;
 - (3) Running a video-parlour showing cinematographic films : ₹ 12 lakh;
 - (4) Acting as an event manager for organisation of an entertainment event: ₹ 4 lakh;
 - (5) Receipts from running a circus : ₹ 12 lakh;
 - (6) Direct-to-Home Services on which it has paid entertainment tax under State laws: ₹ 20 lakhs. **6**
- (b) M/s. Auriga Pvt. Ltd. provides the following services relating to information technology software. Compute the value of taxable service and service tax payable thereon if all charges are exclusive of service tax. Ignore Small Service Providers exemption :
- (1) Development and Design of information technology software : ₹ 18 lakhs;
 - (2) On-site development of software : ₹ 5 lakhs;
 - (3) Sale of pre packaged software which is put on media : ₹ 22 lakhs;
 - (4) Advice and consultancy on matters relating to information technology software : ₹ 8 lakhs;
 - (5) License to use software was given to different clients : ₹ 28 lakhs;
 - (6) On the basis of specification of P Ltd., a software was developed and delivered to it on media i.e. CD : ₹ 7 lakhs;
 - (7) Up-gradation of information technology software : ₹ 9 lakhs;
 - (8) Programming of software : ₹ 1 lakhs;
 - (9) Enhancement and implementation of information technology software: ₹ 5 lakhs. **10**
- (c) (i) Reddy & Co. a business owned by an individual, operates a Security Agency. It supplied 10 security personnel to R Ltd on a monthly charge of ₹ 10,000 per person. Determine the taxability in the hands of Reddy & Co. and R Ltd for this service assuming the service, is provided only for June 2014.
If the services are provided to M/s Raju & Co. which is an individual business entity, determine the tax liability. **[2+2]**
- (ii) Briefly answer the following questions:-
- I. Is filing of return compulsory even if no taxable service is provided or received or no payments are received during a period (a particular half year)?
 - II. Whether a single return is sufficient when an assessee provides more than one service?
 - III. What are the returns a service tax assessee has to file? **[1+1+2]**
- (iii) State the meaning of 'Bundled Service'. **2**

7. Answer any two:

6×2=12

- (a) (i) State whether cash incentives for additional sales effected by the distributor/dealer are allowed as deduction from sale price under CST. **2**
- (ii) Compute the VAT amount payable by Mr. A who purchases goods from a manufacture on payment of ₹ 2,27,000 (including VAT) and earn 10% profit on cost to

PTP_Intermediate_Syllabus 2012_Dec 2015_Set 1

retailers. Vat rate on purchase and sale is 13.50%.

4

(b) State the situations where voluntary registration may be refused by the Department under VAT. 6

(c) Mr. A, a first stage dealer in pharmaceutical plant and boiler in the State of Tamil Nadu, furnishes the under mentioned information:

| Sl. No. | Particulars | ₹ |
|---------|--|-------------|
| (i) | Total inter-State sales during financial year 2014-15 (CST not shown separately) | 2,31,25,000 |
| (ii) | Trade commission for which credit notes have to be issued separately | 5,78,125 |
| (iii) | Freight and transportation charges (of this ₹ 1,50,000 is on inclusive basis) | 4,50,000 |
| (iv) | Insurance premium paid prior to delivery of goods | 70,000 |
| (vi) | Installation and commissioning charges levied separately in invoices | 75,000 |

Compute the tax liability under the CST Act, assuming the rate of tax @ 2%.

6

8. Answer any two:

4×2=8

(a) State the steps of comparable uncontrolled price method in relation to Arm's Length Price. 4

(b) Swinhoe LLP of France and Rani Ltd. of India are associated enterprises. Rani Ltd. imports 3,000 compressors for Air Conditioners from Swinhoe at ₹ 7,500 per unit and these are sold to Paharpur Cooling Solutions Ltd at a price of ₹ 11,000 per unit. Rani had also imported similar products from Cold Ltd and sold outside at a Gross Profit of 20% on Sales.

Swinhoe offered a quantity discount of ₹ 1,500 per unit. Cold could offer only ₹ 500 per unit as Quantity Discount. The freight and customs duty paid for imports from Poland had cost Rani ₹ 1,200 a piece. In respect of purchase from Cold Ltd, Rani had to pay ₹ 200 only as freight charges.

Determine the Arm's Length Price & the amount of increase in Total Income of Rani Ltd.

[2+2]

(c) State the issues related to intangibles in the context of transfer pricing? 4