

PAPER 11- INDIRECT TAXATION

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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 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
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	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
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	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	
	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 will suitable reasons: [1×20=20]**
- (a)** Discuss whether putting together different duty paid items in a kit or box amounts to manufacture.
 - (b)** State the frequency at which a SSI unit has to file its return under Excise Law.
 - (c)** In relation to the Cenvat, mention the time limit within which credit is to be taken.
 - (d)** An Indian firm provides a technical inspection and certification service for a newly developed bike launched by an overseas firm, which has to meet emission standards in different countries. The testing is carried out in Maharashtra (20%), Kerala (30%) and in Colombo (50%). Decide the place of provision of service with reason.
 - (e)** "If any article is not subjected to excise duty, then no additional duty of customs can be levied." – Discuss
 - (f)** Who decides the cases with respect to default in export obligations under the FTP?
 - (g)** State the minimum value addition which is to be required for tea under Advance Authorisation Scheme.
 - (h)** Define 'declared goods' as per sec.2 (c) of CST Act.
 - (i)** State the amount of penalty which a person is liable to pay for improper exportation of prohibited goods.
 - (j)** Decide whether ship demurrage charges on chartered vessels includible or not in the cost of transport in case of valuation of imported goods.
 - (k)** Name the constitutional power by which tax can be imposed on interstate sale or purchase of goods.
 - (l)** Give two examples of goods which are non-excisable.
 - (m)** State the features of Service Tax Code (STC) Number.
 - (n)** Mention the turnover limit to determine small service provider to levy service tax.
 - (o)** Discuss whether the service of police protection by the Department of police to the Chief Minister is chargeable to service tax.
 - (p)** Give some examples of deemed sale under VAT.
 - (q)** "Goods under CST Act include materials, articles, stocks and commodities." – Critically examine.
 - (r)** State the purpose to formulate safe harbour rules in the context of international transfer pricing.
 - (s)** State the basic objective to determine Arm's length price.
 - (t)** Whether service tax is payable on remittance received from abroad?

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2. Answer any two: **[2×2]**

(a) State the excise duty liability if goods are manufactured by 100% Export Oriented Unit (EOU) and brought to Domestic Tariff Area. **[2]**

(b) Write about the power of taxation under Constitution of India. **[2]**

(c) State the difference between direct tax and indirect tax regarding the nature of taxation. **[2]**

3. Answer any two: **[8×2]**

(a) (i) 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. –

1. 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.
2. 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. **[6]**

(ii) Distinguish between Non- Excisable goods and Exempted goods. **[2]**

(b) 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

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. **[8]**

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- (c) (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%. **[3]**

(ii) Computation of assessable value in case of depot transfer - Rule7: 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%

[5]

4. Answer any two:

[6 ×2]

(a) (i) Describe the types and usage of bill of entry in case of entry of goods on importation. **[3]**

(ii) After visiting USA for 10 days, Mrs. & Mr. Z brought to India a laptop computer valued at ₹38,000. Personal effects valued at ₹60,000 and a personal computer for ₹56,000. Calculate the customs Duty payable? **[3]**

4. (b) (i) M/s H.R.C 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 M/s H.R.C, correct? Discuss. **[3]**

(ii) Assessable Value of certain goods imported from USA is ₹10,00,000. The packet contains 10,000 pieces with Maximum Retail Price ₹200 each. The Goods are Assessable under Section 4A of the Central Excise Act, 1944, after allowing an Abatement of 40%. The Excise Duty rate is 8% advalorem. Calculate the amount of Additional Duty of Customs under Section 3(1) of the Customs Tariff Act, 1975; assuming Basic Customs Duty @ 10% ad valorem. **[3]**

(c) 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

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power.

Compute A.V. and amounts of Basic, Additional and Special Additional Duty to be adopted. [6]

5. Answer any two:

[4×2]

(a) State the administration procedures which are followed by DGFT in case of Foreign Trade Policy (FTP). [4]

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

(c) Mention the categories of exporters who are eligible under Export promotion Capital Goods Scheme (EPCG). [4]

6. Answer any two:

[10× 2]

(a) (i) Whether the activity of erection of Pandal / Shamiana activity involves transfer of right to use such pandal/ shamiana to the customer? Is it included in service? [3]

(ii) Ravi Enterprises Ltd, a Small Service Provider, provided the following serviced during the Financial Year 2014 - 2015. Determine the taxable value of services and also the tax liability thereon. (Assume that all values are exclusive of service tax)

Particulars	Amount (₹)
Services provided to Companies	3,00,000
Services provided under its brand name	4,00,000
Services provided under the brand name of "Pi Ltd"	5,00,000
Services which are already exempt under any other Notification	3,00,000
Services rendered to Individuals	4,00,000

[7]

(b) (i) 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. [4]

(ii) 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). [6]

(c) (i) Compute value of taxable services of transport of "passengers of 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

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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. [5]

- (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 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

[5]

7. Answer any two:

[6× 2]

- (a) (i) 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]

- (ii) State the essential ingredients of a sale under CST. [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 :

- (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. [6]

- (c) (i) Discuss the validity of the following statement with reference to computation of liability-under CST Act: (I) Cost of freight, separately charged in the invoice, shall be deducted from sale price (II) Subsidy given by Government to manufacturers (selling the product at controlled price) to compensate cost of production will form part of sale price, (III) Charity or dharmada collected by dealer will not form part of sale price (IV) Free of cost material supplied by the customer will be added to the sale

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- price. [4]
(ii) Disadvantages of Cascading Effect of Taxes. [2]

8. Answer any two: [4×2]

(a) Write short notes on –

- (i) Marketing related intangible assets and
(ii) Customer related intangible assets in the context of international transfer pricing. [2+2]

(b) Flip Laboratories Ltd. is 100% subsidiary of a US Company. The parent company sales its products to unrelated buyers at US dollars 150 per unit. Compute the Arms Length Price (ALP) in following two situations - (I) The product is sold to Indian subsidiary at 120 USD per piece (II) The product is sold to Indian subsidiary at USD 180 per unit. [4]

(c) State the applicability of domestic transactions in the case of transfer pricing. [4]