

FINAL EXAMINATION

GROUP III

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2017

Paper- 16: TAX MANAGEMENT AND PRACTICE

Time Allowed : 3 Hours

Full Marks : 100

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

Wherever required, the candidate may make suitable assumptions and

State them clearly in the answer.

Working notes should form part of the relevant answer.

All sub- divisions of a questions should be answered continuously.

All questions in Income tax relate to the Assessment year 2017 – 18, unless stated otherwise.

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

1. (a) Choose the most appropriate alternative(s): 1×10 =10
- (i) In respect of goods imported by a SEZ and used in manufacture, the anti-dumping duty is payable at _____.
- (A) Nil
(B) 25% of the rate applicable for others
(C) 50% of the rate applicable for others
(D) 75% of the rate applicable for others
- (ii) For purposes of levy of service tax, services rendered outside employment by an employee to employee is
- (A) Fully exempt
(B) Partially exempt
(C) Fully chargeable
(D) None of the above
- (iii) Where passengers are moved by air from Colombo to Chennai the Value of such services is ₹300 lakhs, the value of taxable service is
- (A) Nil
(B) ₹300 lakhs
(C) ₹45 lakhs
(D) None of the above

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- (iv) Under the CST Act, 1956, the position of Government subsidy vis-a-vis sale price is
- (A) Fully forms part of the same price
 - (B) 25% if includible in sale price
 - (C) 50% is includible in sale price
 - (D) Does not form part of sale price
- (v) Application for Advance Authorization is to be made in duplicate in
- (A) Naya Ayuktha Form
 - (B) AAyat Niyat Form
 - (C) AA-1 Form
 - (D) None of the above
- (vi) Where PQR Ltd., is set up on 01-04-2016 and assuming that the necessary conditions are fulfilled, the basic rate of income-tax applicable (excluding surcharge and cess) under section 115 BA of the Income-tax Act, 1961 is
- (A) 25%
 - (B) 20%
 - (C) 22%
 - (D) None of the above
- (vii) Deduction at _____% under section 32AC would be available in the year of installation i.e. P.Y. 2016-17, even though the new plant and machinery or value exceeding ₹25 crores was acquired in the P.Y. 2015-16.
- (A) 10
 - (B) 15
 - (C) 20
 - (D) 25
- (viii) Mr. Humayun, an individual, has received a gift of teak cot worth ₹1,20,000 from his friend on 01-02-2017. The amount to be treated as income from other sources is
- (A) Nil
 - (B) ₹ 1,20,000
 - (C) ₹ 70,000
 - (D) None of the above
- (ix) Under section 2(22)(e) of the Income-tax Act, 1961, any payment (to the extent of accumulated profits) by a closely-held company by way of loan or advance to its shareholder, being a person who is the beneficial owner of shares, holding, is deemed as dividend.
- (A) not less than 10% of the voting power
 - (B) not less than 15% of the voting power
 - (C) not less than 10% of the total of equity and preference shares

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- (D) not less than 15% of the total of equity and preference shares
- (x) Under section 80JJAA deduction available to an eligible assessee fulfilling prescribed conditions is _____ % of the additional employees cost.
- (A) 10
(B) 15
(C) 30
(D) 40
- (b) Fill up the blanks: 10×1=10
- (i) Assessee engaged in the business of transmission of power are eligible for additional depreciation at _____%.
- (ii) Penalty for not furnishing the report of international group is ₹ _____ per day when the delay is not more than one month.
- (iii) For resident senior citizen with total income of ₹ 4,40,000 the amount of tax rebate under section 87A would be ₹ _____ .
- (iv) A foreign company whose total income exceeds ₹10 crore must pay surcharge at the rate of _____%.
- (v) A domestic company with total turnover of ₹4 crore during the previous year 2014-15 must pay tax for the assessment year 2017-18 at _____%.
- (vi) When a product is not defined in the Schedules and Section Notes and Chapter Notes it should be classified as per _____ test.
- (vii) Under excise law, the MRP is to be declared only on packages meant for _____ and not on wholesale packages.
- (viii) Service of transportation of passengers by air-conditioned stage carriers would be taxed after abatement of _____%.
- (ix) Threshold limit of consideration for levy of service tax for performance in classical art is ₹ _____.
- (x) A female passenger residing abroad for more than 1 year when comes to India, jewellery allowance is up to _____ grams with a value of cap of ₹ 1 lakh.

Answer: 1 (a)

- (i) A. nil
(ii) C. Fully Chargeable
(iii) A. Nil
(iv) D. Does not form part of sale price
(v) B. Aayat Niyat Form
(vi) A. 25%
(vii) B. 15
(viii) A. Nil
(ix) A. not less than 10% of the voting power
(x) C. 30

Answer: 1 (b)

- (i) 20

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- (ii) ₹5,000
- (iii) ₹ 5,000
- (iv) 5
- (v) 29
- (vi) Trade parlance
- (vii) Retail sale
- (viii) 60
- (ix) ₹1,50,000
- (x) 40

2. (a) Mr. Sarath, who runs a manufacturing unit in a DTA, has imported a machinery on 21-02-2017 from a nation, which is covered by a notification issued by the Central Government under section 9A of the Customs Tariff Act, 1975.

Following details are made available to you:

CIF value of consignment: Euro 40,000

Quantity imported: 800 kgs.

Exchange rate applicable: ₹ 70 = Euro 1

Basic customs duty: 10%

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 @ Euro 80 per kg. and the landed value of the commodity as imported.

You are required to determine the liability on account of normal duties, cess and the anti-dumping duty. Assume that only 'Basic Customs Duty' (BCD) and Secondary and higher education cess are payable.

Will there be change in your answer if the import is made by a SEZ unit?

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- (b) Mr. Prakash sold a vacant site for ₹100 lakhs on 10.09.2016. The site was acquired in April, 2008 for ₹20 lakhs. The stamp duty valuation on the date of sale was ₹110 lakhs. Mr. Prakash paid 2% as brokerage without deduction of tax at source and it was paid in cash. He deposited ₹30 lakhs in capital gain bonds issued by REC on 27.04.2017. He acquired a residential property in April, 2017 for ₹40 lakhs and in the document his name and his wife's name were mentioned as buyers. His wife is a home maker.

Compute the capital gains chargeable to tax in the hands of Mr. Prakash.

Cost inflation index: F.Y. 2008-09 = 582; F.Y. 2016-17 = 1125.

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Answer: 2 (a)

The following points are to be taken note of -

- (1) The question clearly states that only basic customs duty, EC and SHEC thereon and anti-dumping duty are leviable on the goods in question and no other duty viz. additional duty of customs u/s 3(1) of the Customs Tariff Act, 1975 or special additional duty of customs u/s 3(5) of the Customs Tariff Act, 1975 is leviable.
- (2) For the purposes of the notifications imposing anti-dumping duty, "landed value" means the assessable value as determined under the Customs Act, 1962 and includes all duties of customs except duties levied under sections 3, 8B, 9 and 9A of the said Customs Tariff Act, 1975.
- (3) No EC and SHEC is imposable on anti-dumping duty.

Keeping in mind the aforesaid, the relevant computations are as under:

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	(Amounts in ₹)
CIF Value of the consignment (in Indian ₹) [Euro 40,000 × ₹ 70]	28,00,000
Add: Landing Charges @ 1%	28,000
Assessable Value	28,28,000
Add: Basic Customs Duty @ 10%	2,82,800
Add: EC and SHEC @ 3% on Basic Customs Duty	8,484
Landed Value/Cost of the good [A]	31,19,284
Cost of commodity for the purposes of anti-dumping notification [B] 1800 Kg. × Euro 70 per Kg. × ₹ 80 per Euro	44,80,000
Anti-dumping duty [B - A]	13,60,716

Where import is by a SEZ Unit

No anti – dumping duty is payable by a SEZ unit. Hence the answer is different.

The unit will pay BCD plus cess only, of ₹2,91,284.

Answer: 2 (b)

Computation of capital gain of Mr. Prakash for the Asst. year 2017 – 2018

The assessee is eligible to claim the brokerage paid for the transfer of capital asset even though it was paid in cash and no tax was deducted at source.	
The stamp duty valuation i.e. ₹110 lakhs would be adopted as deemed sale consideration for the purpose of computing the capital gains.	
Since the investment in capital gain bonds of REC was made beyond 6 months from the date of sale, it is not eligible for deduction / exemption under section 54 EC.	
Investment of the capital gain jointly with his wife was held as valid in CIT v. Ravinder Kumar Arora (2012) 342 ITR 38 (Del).	
Deemed sale consideration	1,10,00,000
Less: Brokerage	2,00,000
Net sale Consideration	1,08,00,000
Less: Indexed Cost of Acquisition	
₹20,00,000 × 1125/582	38,65,979
	6934,021
Less: Exemption U/s. 54EC	Nil
Exemption U/s. 54 F	
40,00,000 × 69,34,021/108 lakhs	25,68,156
Long-term capital gain	43,65,865

3. (a) Following is the Profit and Loss Account of Kalai & Co. for the year ended 31.03.2017:

Particulars	₹	Particulars	₹
Salary	1,89,500	Gross Profit	7,40,000
Contract Payments	1,50,000	Agricultural income (from lands in India)	40,000
Amount paid to university for scientific research	10,000	Dividend from Indian companies	15,000
Depreciation	1,10,000	Interest on income-tax refund	5,000
Working partners' salary	2,40,000		
Interest on capital	75,000		
Net Profit	25,500		
	8,00,000		8,00,000

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Additional Information:

- (i) Salary includes payment to partner's son of ₹40,000. He was employed for only one month. The excess payment was ascertained at ₹15,000.
- (ii) The partnership deed provides for monthly salary to two partners @ ₹ 10,000 each and interest on capital at 15% per annum.
- (iii) Contract payments include a single contract given to Mr. R for ₹35,000. No tax was deducted on such payment.
- (iv) Depreciation eligible under section 32 has been computed and found as ₹1,21,000.

Compute the income chargeable under the head "Profits and Gains of business or profession" of the firm for the assessment year 2017-18. 8

(b) The assessee sells the final product in gunny bags, which are returnable by the buyers. There is no specific agreement with the buyers about the return of gunny bags. In the light of the judgment of the Apex Court, state whether the value of such gunny bags should be included in the assessable value for central excise purposes. 5

(c) While a company has to pay service tax on monthly basis, a One Person Company can pay service tax on quarterly basis. Discuss the validity of the statement. 3

Answer: 3 (a)

Kalai & Co.

Asst. Year 2017 – 2018

Profits and Gains of Business or Profession

Particulars	₹	₹
Net Profit as per Profit and Loss Account		25,500
Add:		
Depreciation debited to Profit and loss account		1,10,000
Salary paid to partner's son disallowed to the extent it is excessive having regard to market conditions		15,000
interest on capital in excess of 12% to be disallowed. ₹75,000 × 3/15		15,000
Contract payment of ₹35,000 for which tax was not deducted at source. Disallowed @ 30%		10,500
Working partner salary to be considered separately		2,40,000
		4,16,000
Less:		
Agricultural income credited to P&L account	40,000	
Dividend from Indian companies - exempt from tax	15,000	
Interest on income-tax refund	5,000	
Amount paid to university for scientific research eligible for deduction @ 200% under section 35(2AA). Hence the balance 100% deducted now	10,000	
Depreciation eligible under section 32	1,21,000	
		1,91,000
Book profit		2,25,000
Less:		
Working Partner salary - paid as per deed	2,40,000	
Allowable U/s.40(b)		
On first ₹3,00,000 90% is allowable.		

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90% of ₹2,25,000	2,02,500	
Least of the above is deductible		2,02,500
Income from Profits and gains of business or profession		22,500

Answer: 3 (b)

The issue which arose for consideration was whether the value of the gunny bags in which soda ash was supplied by the assessee was to be included in the assessable value of the finished product, in the absence of a specific agreement with the buyers.

The Supreme Court considered similar issue in *Tata Chemicals Ltd v. Collector of Central Excise* 2016 (334) ELT 580 (SC).

The Apex Court, referring to the judgments in **Mahalakshmi Glass Works (P) Ltd. v. Collector** 1988 (36) ELT 727 (SC) and **Triveni Glass Ltd. v. UOI** 2005 (181) ELT289 (SC), noted that if an arrangement exists between the seller and the buyer of excisable goods for return of packing materials by the buyer to the seller, carrying an obligation on the seller to return the value of the packing material to the buyer on such return; then such value is not to be included in the assessable value of the finished product. Further, in such case, the question of actual return is not relevant. However, on the basis of the materials placed before it, the Apex Court inferred that assessee had not succeeded in establishing that such an arrangement existed. The Court did not find any obligation taken by the assessee to refund the value of the gunny bags to the buyer in terms of any arrangement between the parties.

The Supreme Court held that in the absence of factual foundation in support of the fact that such an arrangement existed between the parties, the value of gunny bags returned by the buyers could not be excluded from the assessable value.

The above principle has also been endorsed by the Supreme Court in an earlier case, in case of **CCE v. Hindustan Safety Glass Works** 2004 (181) ELT 178, the Apex Court had decided that even though wooden crates/boxes used for transporting the glass sheets may be durable, but if no arrangement is made for making them returnable by buyer, their cost is includible in value of glass sheets.

Answer: 3 (c)

Prior to 01.04.2016, rule 6(1) of the service tax Rules, 1994 required a company including One Person Company (OPC) and a Hindu Undivided Family (HUF) to pay service tax on monthly basis. However, an individual or proprietary firm or partnership firm could pay service tax on quarterly basis. Therefore, as far as payment of service tax by companies is concerned, the statement is correct.

However, with effect from 01.04.2016, proviso to rule 6(1) has been amended to lay down that a one person company whose aggregate value of taxable services provided from one or more premises is ₹ 50 lakh or less in the previous financial year or an HUF can also pay service tax on quarterly basis.

Therefore, the given statement is not absolutely correct inasmuch as every OPC cannot pay service tax on quarterly basis; only that OPC is eligible for quarterly payment of service tax whose aggregate value of taxable services provided from one or more premises is ₹ 50 lakh or less in the previous financial year.

4. (a) State whether the TDS provisions are attracted in the following cases: 8
- Mr. Mahadevan engaged in trading business with a turnover of ₹80 lakhs for the previous year 2015-16 and turnover of ₹ 85 lakhs in the financial year 2016-17 paid interest of ₹30,000 to Mr. Swami.
 - Mr. Singhvi engaged in manufacturing activity paid salary of ₹3,50,000 to Mr.

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Ghosh during the previous year 2016-17 which is the first year of commencement of business.

- (iii) Cure Well Hospitals Ltd. paid professional charges to Dr. Sakthikanal ₹40,000.
- (iv) Garg & Co. a firm of Cost Accountants paid rent of ₹ 2,70,000 (₹ 22,500 per month) to a partner's son by cash.
- (v) Ramnath & Co. paid interest on term loan taken for car of ₹31,000 to UCO Bank.
- (vi) Mr. Ranjan resigned from MT Pharma after rendering service for 4 years. He received ₹ 60,000 from recognized provident fund account.
- (vii) Padmaja & Co. made contract payments of ₹ 7,500 per month aggregating to ₹ 90,000 to CD & Co. during the year 2016-17.
- (viii) Shiva Industries Ltd. paid brokerage of ₹ 18,000 to Sanvitha Ltd. on 30.01.2017.

- (b) An intermediary product is captively used by a manufacturer for producing another product. Following details are furnished:

Particulars	Amount (₹)
Direct material (inclusive of excise duty at 5%)	42,000
Direct wages	8,500
Works overheads	6,500
Quality control costs	4,200
Research and development costs	2,800
Administrative overheads	6,000
Selling and distribution costs	3,500
Realizable value of scrap	1,600

Administrative overheads may be taken as 60% related to production.

You are required to ascertain the value of the excisable commodity (intermediary product). 8

Answer: 4 (a)

- (i) No tax is deductible at source as the turnover of Mr. Mahadevan during the financial year 2015-16 did not exceed ₹100 lakhs. Whether he has opted for presumptive income under section 44AD or not, he need not deduct tax at source under section 194A for the interest paid to Mr. Swami since the accounts per se are not liable for audit under section 44AB.
- (ii) When the employer pays salary to an employee and the salary income exceeds the limit which is not chargeable to tax, the responsibility of deducting tax at source lies on the employer. In this case regardless of the turnover of Mr. Singhvi, tax is deductible at source on salary paid to Mr. Ghosh as the salary exceeds the basic limit which is not chargeable to tax.
- (iii) As the payment of professional charges exceeded the threshold limit of ₹30,000, tax is deductible at source on professional charges paid at 10%.
- (iv) When the rent paid exceeds ₹1,80,000 the liability to deduct tax at source under section 194-1 would get attracted. Merely because the payment was made by cash will not provide any exception for the reason that such cash payment is liable for disallowance under section 40A(3). Additionally penal consequence for non deduction will follow.
- (v) Interest paid to bank to whom Banking Regulation Act, 1949 applies is not liable for tax deduction at source as the exception is specifically provided in section 194A.
- (vi) Under section 192A when an employee receives an amount being accumulated balance held with recognized provident fund to which EPF Act, 1952 applies, the

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trustees of employees provident fund scheme are liable to deduct tax at source at the rate of 10% subject to monetary limit of ₹50,000.

- (vii) As the aggregate payment does not exceed ₹1 lakh, tax need not be deducted as section 194C is not attracted.
- (viii) When brokerage paid exceeds ₹15,000, tax deductible at source under section 194H would be at 5%.

Answer: 4 (b)

Determination of excisable value of an intermediary product

Direct material (exclusive of excise duty at 5%)	WN 1	40,000
Direct wages		8,500
Works overheads		6,500
Quality control costs	WN 2	4,200
Research and development costs	WN 2	2,800
Administrative overheads	WN 2	3,600
Selling and distribution costs	WN 3	Nil
Total		65,600
Less: Realizable value of scrap	WN4	1,600
Cost of production		64,000
Value of excisable-goods under Rule 8 @ 110% of cost of Production		70,400

Working notes:

1. Raw-material cost shall be taken net of excise duty assuming Cenvat credit is available,
 2. Quality control cost, Research and Development cost and Administration overheads related to production shall form part of cost of production as per CAS-4.
 3. Selling and distribution costs shall not form part of cost of production.
 4. Realizable value of scrap shall be deducted to arrive at cost of production.
5. (a) **Barun Ltd. is engaged in providing taxable services. It received the following amounts in the month of September, 2016:**

	Particulars	(₹)
(i)	Advance received from clients for whom no service was rendered so far	5,00,000
(ii)	Amounts received towards supply of farm labour	1,00,000
(iii)	Amounts received towards warehousing of medicines	2,40,000
(iv)	Demurrage charges recovered from medicine companies for use of services beyond the agreed period	50,000
(v)	Renting of vacant land to a stud farm	60,000
(vi)	Security deposit forfeited for damages done by service receiver (to the vacant land by stud farm) not due to unforeseen reasons	50,000
(vii)	Leasing of vacant land to a dairy farm	3,00,000
(viii)	Training of farmers on use of new pesticides and fertilizers	80,000

Barun Ltd. is not a small service provider and the service tax at 14% plus SBC @ 0.5% and KKC @ 0.5% are charged on the above said amounts, wherever applicable. You are requested to Compute the value of taxable service and service tax payable by Barun Ltd.

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- (b) The following particulars relating to Mr. Saravanan relating to the assessment year 2017-18 are furnished to you:

		(₹)
Gross total income		9,10,000
Above includes the following:		
Short-term capital gains from sale of listed securities	40,000	
Long-term capital gains from sale of house plot	1,10,000	
Winnings from lotteries (Gross)	60,000	
Loss from let out house property	45,000	
Other information:		
Contribution towards Sukanya Samridhi Scheme in the name of minor daughter		95,000
Stamp paper and registration expenses relating to residential house		45,000
Contribution to National Pension Scheme of the Central Government		1,10,000
Donation to Prime Minister's Relief Fund		35,000
Donation given to Navrang Charitable Trust registered u/s 12AA and recognised for section 80G purposes		60,000

Compute the deduction available to him under Chapter VIA of the Income-tax Act, 1961.

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Answer: 5 (a)

Computation of value of taxable service and service tax payable by barun Ltd.

	Particulars	₹
(i)	Advance received from clients for whom no service was rendered so far-taxable in the month of receipt of advance	5,00,000
(ii)	Amounts received towards supply of farm labour - not liable to service tax as it covered in the negative list of services [Section 66D]
(iii)	Amounts received towards warehousing of medicines - Taxable warehousing of agricultural produce is only covered in negative list of services. Hence, it is liable to tax.	2,40,000
(iv)	Demurrage charges recovered from medicine companies for use of services beyond the agreed period - liable to tax in view of rule 6(1)(x) of the Service tax (Determination of Value) Rules, 2006	50,000
(v)	Renting of vacant land to a stud farm - liable to service tax as it is not covered by services relating to agriculture.	60,000
(vi)	Security deposit forfeited for damages done by service receiver (to the vacant land used by stud farm) not due to unforeseen actions - hence liable for service tax only when it is due to unforeseen action, it would be excluded.	50,000
(vii)	Leasing of vacant land to a dairy farm - covered by negative list of services as agriculture includes dairy farming.	
(viii)	Training of farmers on use of new pesticides and fertilizers - covered in negative list of services hence not liable for service tax	
	value of taxable service	9,00,000
	Service tax payable @ 14% + SBC @ 0.5% + KKC @ 0.5%	1,35,000

Answer: 5 (b) Computation of deduction available under Chapter VIA

	₹	₹
Gross total income (GTI)		9,10,000
Less: items to be excluded		

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Short-term capital gains from sale of listed securities	40,000	
Long-term capital gains from sale of house plot	1,10,000	
Winnings from lotteries	60,000	2,10,000
Modified GTI for purposes of Chapter VIA		7,00,000
Less: Deductions under Chapter VIA Sec 80C		
Contribution in the name of Sukanya Samriddin Scheme Sec 80CCD(1)	95,000	
Stamp paper and registration expenses relating to residential house	45,000	
Contribution to NPS of the Central Govt. (1,10,000 – 50,000) = 60,000	60,000	
Restricted to 10% of GTI	70,000	
	2,00,000	
Restricted to 80CCB(1B)	(A)	1,50,000
Additional deduction for contribution to NPS	(B)	50,000
Adjusted GTI for deduction u/s 80G		5,00,000
Sec 80G Donation to Prime Minister's Relief Fund 100%	35,000	
Donation given to Navrang charitable trust registered u/s 12AA abd recognized for section 80G	60,000	
First level restriction 10% of Adjusted GTI	50,000	
Allowable deduction is 50% of above	25,000	
Deduction available U/S 80G	(C)	60,000
Deduction allowable under Chapter VIA (A) + (B) + (C)		2,60,000

6. (a) RST Ltd. is engaged in manufacture of both excisable and non-excisable goods. From the Following are the particulars for the period from 01.10.2016 to 31.03.2017:

	Particulars	₹ in lakhs
(i)	Clearances of excisable goods bearing brand name of AFT Ltd.	80
(ii)	Exports sale of excisable goods to Bhutan	100
(iii)	Exports sale of excisable goods of UK and France	50
(iv)	Clearances of goods (duty paid based on annual capacity of production under section 3A of the Central Excise Act, 1944)	120
(v)	Clearances of goods subject to valuation based on retail sale price as per section 4A of the Central Excise Act, 1944. Cleared at MRP and eligible for 40% abatement.	150
(vi)	Job work under notification 214/86/CE dated 25.03.1986	40

The company operated in the premises previously occupied by XYZ Ltd. from 01.10.2016 to 31.03.2017. In the previous 6 months i.e. from 01.04.2016 to 30.09.2016, XYZ Ltd. had cleared excisable goods of the aggregate value of ₹130 lakhs.

State whether RST Ltd. can claim the benefit of exemption in terms of Notification No. 8/2003- CE dated 01.03.2003 for the financial year 2017-18. Your answer must be supported by reasons for treatment of each of the above items. 8

- (b) Mr. Narielwala is employed in a private limited company and has earned salary of ₹ 14 lakhs for the year ended 31.03.2017. He has paid profession tax of ₹14,000, life insurance premium of ₹ 1,70,000 (capital sum assured is ₹16 lacs on policy taken on 01.02.2016), donation of ₹ 86,000 to a project eligible for deduction under section 35AC and donation of ₹1,00,000 by cheque to a charitable trust recognised for section 80G.

Compute his total income for the assessment year 2017-18. 8

Answer: 6 (a)

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	Particulars	₹ in lakhs
(i)	Clearances of excisable goods bearing brand name of AFT Ltd: For the purpose of computing the turnover limit of ₹400 lakhs which should not be exceeded by a unit claiming exemption under Notification No.8/2003, clearances bearing the brand name or trade name of another person is to be excluded.	NIL
(ii)	Exports sale of excisable goods to Bhutan - export turnover to Nepal and Bhutan are to be treated as clearance for home consumption. Hence excluded.	NIL
(iii)	Exports sale of excisable goods to UK and France - to be considered for reckoning the clearance limit of ₹400 lakhs. Hence not excluded	50
(iv)	Clearances of goods (duty paid based on annual capacity of production under section 3A of the Central Excise Act, 1944) - to be considered for the clearance limit of ₹400 lakhs, hence not excluded.	120
(v)	Clearances of goods subject to valuation based on retail sale price as per section 4A of the Central Excise Act, 1944. Cleared at MRP and eligible for 40% abatement. Value for the purpose of SSI exemption is MRP less abatement. MRP ₹150 lakhs less abatement @ 40% to be considered.	90
(vi)	Job work under notification 214 /86 /CE dated 25.03.1985 - Clearances under specified jobwork notifications are to be excluded. Notification No.214/86 dated 25.03.1986 is one of the specified notifications and hence not to be considered.	NIL
	Clearances of previous tenant of the building occupied by RST Ltd is to be added for the purpose of computing the turnover of ₹400 lakhs as all the clearances made by different manufacturers from the same factory are to be clubbed together.	130
	Total clearances	390
	Since the value of clearances for home consumption does not exceed ₹400 lakhs in the financial year 2016-17, RST Ltd is eligible to claim the benefit of exemption under Notification No.8 of 2003 dated 01.03.2003	

Answer: 6 (b)

Computation of Total income of Mr. Narielwala for the AY 2017-18

Particulars	₹	₹
Income chargeable as "Salaries"		
Gross salary	14,00,000	
Less: Profession tax	14,000	
Chargeable amount/Gross total income		13,86,000
Less: Deductions under Chapter VIA		
Section 80C : LIP Paid ₹ 1,70,000. Restricted to 10% of capital sum assured 1,60,000		
Maximum permissible deduction u/s 80C	1,50,000	
Section 80GGA : Donation to project eligible u/s 35AC, 100% allowable	86,000	
Total deductions excluding section 80G		2,36,000
Adjusted total income for deduction u/s 80G		11,50,000
Total donations to charitable trusts not to exceed 10% of above.	1,15,000	

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Permissible deduction 50% of lower of ₹ 1,15,000/ 1,00,000		50,000
Total income		11,00,000

7. (a) Ms. Laxmi (age 28), a cine actress derived income of ₹ 10 lakhs from acting in a film in foreign country with which India does not have any agreement for avoidance of double taxation. Tax of ₹ 2,00,000 was paid on such income in the foreign country. She earned ₹ 5,72,000 by way of income in India through acting in films. She let out a commercial property at Mumbai for a rent of ₹ 1 lakh per month since April, 2015. The municipal tax on the property paid was ₹ 60,000. Interest on moneys borrowed from SBI for acquisition of the property during the year amounts to ₹ 2,60,000. Principal amount of loan repaid during the year was ₹ 6 lakhs. She paid life insurance premium of her husband ₹ 60,000 and deposited Rs 50,000 by way of tax saver deposit in her name. Compute the tax payable by Ms. Laxmi for the Assessment Year 2017-18. 8

- (b) State the Point of Taxation Rules applicable in the following cases and determine the point of taxation: 4

Sl. No.	Event	Case 1	Case 2
		Date	Date
(i)	Commencement of provision of service	10.06.2016	15.07.2016
(ii)	Completion of service	20.10.2016	15.10.2016
(iii)	Invoice issued	30.10.2016	01.01.2017
(iv)	Payment received	15.10.2016	31.01.2017

- (c) Determine the place of provision of service in the following cases with brief reasons: 4
- (i) Mr. Wilson resident of Bangalore, a consulting engineer provided consultancy services to a company based in Singapore in respect of a shopping complex located in Dubai.
 - (ii) Mr. Ram owner of a property located in Chennai gives the property to Mr. Trump of London on rent for commercial purposes. Mr. Trump pays rent in Indian rupee at Chennai.
 - (iii) Vikram Ltd. of Mumbai provides construction service to Modi Ltd. of Gujarat for construction of new building in Malaysia.
 - (iv) Mr. Banerjee, a Kolkata based architect provided professional service for an immovable property located in Malaysia.

Answer: 7 (a)

Computation of total income and tax payable after relief under section 91

Particulars		₹	₹
Income from house property:			
Rental income		12,00,000	
Less: Municipal tax		60,000	
		11,40,000	
Less: Deduction U/s.24 @ 30%	3,42,000		
Interest on moneys borrowed	2,60,000	6,02,000	
Income from House Property			5,38,000
Income from Profession:			
Indian income - as given		5,72,000	
Income earned outside India		10,00,000	
Gross Total Income			15,72,000

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Gross Total Income		21,10,000
Deduction under Chapter VI-A in respect of Life insurance premium of husband	60,000	
Tax saver deposit in her name	50,000
Principal repayment of loan - not eligible for deduction as the property is a commercial property	NIL	
		1,10,000
Total Income		20,00,000
Tax thereon (including cess)		4,37,750
Average rate of tax = ₹4,37,750 × 100/20,00,000 = 21.8875%		
Rate of tax charged in respect of income earned outside India ₹2,00,000 × 100 / 10,00,000 = 20%		
Less : Relief under section 91 @ 20% being the lower of the two rates @ 20% of ₹ 10,00,000		2,00,000
Balance tax payable after relief		2,37,750

Answer: 7 (b)

Case 1 : As the invoice is issued within 30 days from the date of completion of service, the point of taxation as per rule 3 of Point of Taxation Rules shall be

- (a) Date of invoice (30.10.2016) or
- (b) Date of receipt of payment (15.10.2016) - Whichever is earlier.

Therefore the point of taxation is 15.10.2016.

Case 2: As the invoice is issued after 30 days from the date of completion of service, the point of taxation would be

- (a) Date of completion of service (15.10.2016); or
- (b) Date of receipt of payment (31.01.2017) - Whichever is earlier.

Therefore the point of taxation is 15.10.2016.

Answer: 7 (c)

- (i) The consulting engineer service falls in the location of non-taxable territory (i.e.) Dubai. As per rule 5 of the PoPS no service tax is payable for the consultancy service providing by Wilson to the **company baseci in Singapore as the shopping complex** was in Dubai.
- (ii) As the property is located in India, the place of provision is where the property is located irrespective of where the service provider or receiver is located. The fact that the payment whether made in foreign currency or Indian currency would not make any difference in deciding the taxability of the service.
- (iii) As per rule 5 of the PoPS rules, the place of provision of service falls within non taxable territory and hence will not be taxable. However, as per rule 8 of PoPS rules, the place of provision of service will be the location of the service receiver and hence the construction service will be taxable.
- (iv) As per rule 14 of PoPS rules, if the place of provision of service is determinable in terms of more than one rule, it shall be determined as per the rule that occurs later. Therefore, the place of provision of service will be Gujarat and the service will be taxable.
Since the immovable property is located in a place outside India i.e. Malaysia, the place of provision of service is in Malaysia, in result, the service tax would not be leviable on such service.

8. (a) **Two exporters namely, Five Roses Pvt. Ltd. and Daffodils Garments Pvt. Ltd., regular exporters during the past five years, have achieved the status of One Star Export**

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House in the financial year 2015-16. What would have been the minimum export performance of the two exporters to achieve such status?

Both the exporters are desirous of establishing export warehouses in accordance with the applicable guidelines. What should be their minimum export turnover to enable them to establish export warehouses? 8

(b) The following incomes have been earned by Dharmendra (HUF) and members of the said HUF:

- (i) The HUF is represented in a partnership firm by D, the karta. Interest on capital received at 15% is ₹3 lacs. D has also been paid a remuneration of ₹4 lacs, which is specified in the partnership deed. This amount is within the limits specified in section 40(b).
- (ii) On 01.01.2017, D has blended his individual house property into the hotch pot of the HUF. Gross rental from this house property is ₹3 lacs.
- (iii) D has gifted cash of Rs 2 lacs to the HUF.
- (iv) D's minor son M has received stipend of ₹ 60,000 from a Cost Accountant under whom he is undergoing partical training.
- (v) From the income earned by HUF, salary of ₹1.2 lacs was paid to D, for looking after the family affairs.

How will the above items be treated in the hands of the HUF and individual assesment of D? Head of income is to be specified.

Computation of total income is NOT required.

Answer: 8 (a)

Status Holders are business leaders who have excelled in international trade and have successfully contributed to country's foreign trade. All exporters of goods, services and technology having an import-export code (IEC) number shall be eligible for recognition as a status holder. Status recognition depends upon export performance.

In order to be categorized as One Star Export House, an exporter needs to achieve the export performance of 3 million US \$ million [FOB/ FOR (as converted)] during current and previous three financial years. Thus, export performance of Blue Heaven Pvt. Ltd. and Clean Planet Pvt. Ltd. Would have been at least 3 million US \$ million [FOB/ FOR (as converted)] during current and previous three financial years.

Further, Two Star Export Houses and above are permitted to establish export warehouses. Therefore, these two concerns can establish export warehouses in India only if they achieve the status of Two Star Export House and above.

In order to achieve said status, export performance of the exporters during current and previous three financial years should be as indicated below:

Status Category	Export Performance [FOB/FOR (as converted) value in US \$
Two Star Export House	25
Three Star Export House	100
four Star Export House	500
Five Star Export House	2,000

Answer: 8 (b)

- (i) Interest on capital will be taxed in the hands of the HUF as business income. However, in terms of section 28(v), only interest computed at 12% i.e. ₹ 2.4 lacs alone will be included.
Remuneration received from the firm is also taxed as business income.
The same is the income of the HUF.
- (ii) In view of the provisions of section 64(2), the income from the blended property will continue to be assessed as the individual income of D.

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(iii) Since D is a member of the HUF, being a gift received from a relative, cash gift of ₹ 2,00,000 received from D will not be taxed in the hands of the HUF.

(iv) Income earned by minor son of D has nothing to do with the HUF.

This is income earned by minor from as stipend is an income exempt u/s 10 and hence there is no question of clubbing of such income in the individual hands of D.

(v) Salary can be paid by HUF to its karta for services rendered and the same is a permissible deduction in the hands of the HUF, while calculating its business income.

This salary is individual income of D.