

# FINAL EXAMINATION

June 2014

F-P14(TXM)

Syllabus 2008

## Indirect & Direct – Tax Management

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.*  
**Answer Question No.1** (carrying 25 marks), which is compulsory  
and any five from the rest.

### 1. Fill in the blanks.

1×25=25

- (i) The maximum penalty u/s 271A of the Income Tax Act, 1961 for failure to keep, maintain or retain books of accounts and documents as required u/s 44AA is \_\_\_\_\_. (₹ 25,000/ ₹ 1,00,000)
- (ii) The rate of depreciation under the Income Tax Act, 1961 on wind mill installed after 31.03.2012 will be \_\_\_\_\_. (15% / 80%)
- (iii) Dealers who make interstate purchases \_\_\_\_\_ eligible for the composition scheme under value added tax (VAT) system. (are / are not)
- (iv) Penalty upto \_\_\_\_\_ can be imposed for violation of Cenvat Credit Rules. (₹ 5,000 / ₹ 10,000)
- (v) Upgradation of computer system \_\_\_\_\_ manufacture under Central Excise.(is / is not)
- (vi) If provisions of Alternate Minimum Tax u/s 115J to 115JF of Income Tax Act is applicable, the assessee will have to obtain a report in form \_\_\_\_\_ certified by an Accountant and must be available during assessment. (No.29B / No.29C)
- (vii) As per Sec 49 of Customs Act, goods can be kept in the warehouse for 30 days only. The period can be extended by the Commissioner for further period upto \_\_\_\_\_ days at a time. (30 / 60)
- (viii) Section 92BA of Income Tax Act, applies to certain transactions within the meaning of “specified domestic transaction” if the aggregate of these transactions entered into by assessee in previous year exceeds ₹ \_\_\_\_\_ crore. (one / five)
- (ix) As per Sec. 139(9) of Income Tax Act, a return of income filed without payment of self assessment tax (along with interest under Section 140A of Income Tax Act) is considered as \_\_\_\_\_. (valid / defective)
- (x) Demurrage is charged if imported goods are not cleared from port/air port within \_\_\_\_\_ working days. (three / seven)
- (xi) Remission of Duty Excise shall be \_\_\_\_\_ if finished goods after manufacturing entered in Daily Stock Account (DSA) are stolen from the factory. (granted / not granted)
- (xii) Unexplained credits, money, investment, expenditure etc., which has been deemed as income under Section 68, Section 69, Section 69A, Section 69B, Section 69C or Section 69D will be taxed at the special rate of \_\_\_\_\_ plus surcharge and cess as applicable without deduction of any expenditure or allowance under any provision of Income Tax Act. (20% / 30%)

Please Turn Over

- (xiii) For the purpose of customs valuation, rate of exchange means the rate of exchange determined by \_\_\_\_\_. (Reserve Bank of India / Central Board of Excise & Customs)
- (xiv) A petrol dealer at Kolkata Airport, supplied aviation spirit from his depot to an Aircraft proceeding to Japan. It is \_\_\_\_\_ out of India eligible for exemption under CST Act. (an export / not export)
- (xv) If a product is not defined in the Schedules and Section Notes and Chapter Notes of the Central Excise Tariff Act, 1985, then it should be classified according to its \_\_\_\_\_ meaning attached to it. (dictionary / scientific / popular common parlance)
- (xvi) E-filing of service tax return is \_\_\_\_\_ for a non-corporate assessee. (optional / mandatory)
- (xvii) Mr. A has rendered free services to his close relative; an outsider would have charged ₹ 1,20,000 for such services. The value of taxable services is \_\_\_\_\_. (₹ 1,20,000/ nil)
- (xviii) Declared services are covered by Section \_\_\_\_\_ of the Finance Act, 1994. (66B/ 66A/ 66F)
- (xix) Taxes and duties are \_\_\_\_\_ for computing the assessable value for customs duty purposes. (deductible / not deductible)
- (xx) Under Export Promotion Capital Goods (EPCG) scheme, an authorization holder can import capital goods (i.e. plant, machinery, equipment, etc.) at concessional rate of customs duty of \_\_\_\_\_. (5% / 10%)
- (xxi) The net wealth computed under the provisions of the Wealth Tax Act shall be rounded off to the nearest \_\_\_\_\_ rupees. (one thousand / one hundred)
- (xxii) For a farm house not to be treated as an "asset" under Section 2(ea) of the Wealth Tax Act, it should be located \_\_\_\_\_ kilometers beyond the municipal or corporation limits. (10 / 25)
- (xxiii) Cenvat credit \_\_\_\_\_ be availed by a manufacturer in respect of excise duty paid on jigs and dies purchased and used in the factory. (can / cannot)
- (xxiv) For availing exemption from CST for subsequent interstate sale in transit, the seller should obtain Form E-I from his \_\_\_\_\_. (vendor / customer)
- (xxv) Interest in HUF property is \_\_\_\_\_ asset under Wealth Tax. (exempted / taxable)
2. (a) An SSI manufacturer wants to pay full duty even when he is eligible for SSI exemption. 1×3=3
- (i) Can he do so?
- (ii) Why he would like to pay full duty?
- (iii) What is the duty payable?
- (b) Calculate the central sales tax payable from the following data: 8
- (i) Invoice No.11 dated 01.04.2013 for ₹ 3,57,934 inclusive of CST @ 2%
- (ii) Invoice No.12 dated 02.04.2013 for ₹ 3,82,754 exclusive of CST @ 2%
- (iii) Invoice No.13 dated 03.04.2013 for ₹ 3,50,000 inclusive of local sales tax @ 10%
- (iv) 50% of the goods sold on 01.04.2013 on interstate trade was rejected and returned on 31.07.2013



- (v) 30% of the goods sold on 02.04.2013 on interstate trade was returned on 02.06.2013
- (vi) Goods of ₹ 3,00,000 recorded as stock transferred from Bangalore to Indore on 05.04.2013 excludes CST element of 2%
- (vii) Purchased goods for ₹ 6,00,000 from the market on 09.01.2013 and exported to Singapore on 14.03.2014 to the Agent for further sale (The goods attracted local sales tax of 10%). Give reasons for inclusion / non-inclusion of the above.
- (c) What are the capital goods as per Rule 2(a)(i) of Cenvat Credit Rules in respect of sending out of capital goods by service provider? 4

3. (a) M/s X & Co. Ltd. engaged in the manufacturing of PVC granules. The written down value of plant and machinery on 1st April 2013 is ₹ 1,000 Lacs. The company purchased additional plant and machinery of ₹ 800 Lacs on 18th April 2013 which includes a second hand machine imported from China of ₹ 200 Lacs to increase its installed capacity of production from 1000 MT per annum to 1500 MT per annum. The production from new machine was taken with effect from 1st December 2013. Find out the allowable depreciation under Section 32 of Income Tax Act for the previous year 2013-14 and support your answer with reasons. 5

- (b) Discuss the following with applicable provisions under Income Tax Act for the Assessment Year 2014-15.

CLT Ltd., Indian company had entered into an agreement with Mr. Ron, a non-resident, on 1st July 2006. Pursuant to said agreement, fees for technical services (FTS) of ₹ 10 lakh, is payable to Mr. Ron, every year. What would be the tax consequence of the said transaction in the hands of Mr. Ron in the following situation where the normal tax rate under Section 115A of Income Tax Act is 25%

- (i) Mr. Ron is a resident of a country with which India has no DTAA.
- (ii) Mr. Ron is a resident of a country, with which India has a DTAA, which provides for taxation of such FTS @15%
- (iii) Mr. Ron is a resident of a country with which India has a DTAA, which provides for taxation of such FTS @28% 1×3=3
- (c) Compute the interest payable by the service providers in the following cases on account of delay in payment of service tax : 4

Name of the service provider	MNO Ltd.	Mr. Rohan
Aggregate Value of Taxable service during financial year 2012-13	₹ 50 Lakhs	₹ 62 Lakhs
Service tax liability delayed during 2013-14	₹ 1,25,800	₹ 2,46,000
Delay in payment of service tax	15 days	30 days

Please Turn Over

- (d) Explain the taxability of following receipts (exclusive of service tax) in the hands of M/s Power Gen Ltd. (a State Electricity Utility). (Ignore small service provider's exemption) 3

- Collections from transmission and distribution of electricity — ₹ 100 Lakh;
- Rent from hiring of electricity meters — ₹ 25 Lakh.

4. (a) M/s ARMAN LTD. a manufacturer has imported a machinery along with accessories required for the said machinery on 15th June, 2013. Details of information related to import of machinery are given below. Please

Particulars	Amount
Machinery imported from USA by air (FOB price)	US\$. 5000
Accessories compulsorily along with the machinery	US\$. 1000
Air freight	US\$. 1800
Insurance charges	Not available
Local agent's commission to be paid in India currency	₹ 9300
Transportaion from India Airport to factory	₹ 4000
Exchange Rate notified by CBDT — US\$1 = ₹ 62	
Exchange Rate as per RBI — US\$1 = ₹ 59.50	

- (i) Compute the assessable value for purpose of determination of customs duty. 4

- (ii) Provide explanations where necessary. 3

- (b) Mrs. Jyothika, an individual, furnishes the following details of her assets and liabilities as on 31-03-2014. Calculate her net taxable wealth as per Wealth Tax Act : 8

	Particulars	(₹ in Lacs)
i.	Agricultural lands in urban area, used for agricultural purposes	34
ii.	Loan taken for purchase of above land	10
iii.	Helicopter for commercial purposes	54
iv.	Commercial complex let out for 280 days during the year	65
v.	Motor cars used exclusively for business purposes	24
vi.	Jewellery	33
vii.	Units in XYZ Gold Fund, an exchange – traded fund (ETF in NSE), market value	12

Brief reason for treatment of each item should be given.



5. (a) M/s EXPO LTD., an Export Oriented Unit cleared the goods to Domestic Tariff Area (DTA) during 2013–14. Based on following data, arrive at the duty payable and Cenvat Credit available on clearance of goods to Domestic Tariff Area (DTA) from an Export Oriented Unit (EOU) : 4

Assessable value	₹ 40 Lakhs
Basic customs duty	10%
Excise duty	12%
Education cess	2%
Secondary and Higher Education cess	1%
VAT payable under State VAT law	4%

- (b) A manufacturer purchased certain inputs from KIMS LTD. The assessable value was ₹ 25,500 and the Central Excise Duty was calculated at ₹ 3,152 making a total amount of invoice at ₹ 28,652. However, the buyer manufacturer paid only ₹ 22,320 to KIMS LTD. in full and final settlement of this bill. How much CENVAT credit can be availed by the manufacturer and why? 3
- (c) Mr. Kiran Kumar, employed in M/s. KSP Ltd. at Delhi, furnishes you the following information for the year ended 31.03.2014 :
- Basic salary ₹ 50,000 per month.
  - Dearness allowance @40% of Basic salary (eligible for retirement benefits).
  - A laptop was purchased by M/s. KSP Ltd. in August, 2013 for ₹ 40,000 and the ownership of said laptop immediately transferred to Mr. Kiran Kumar. An amount of ₹ 5,000 was recovered from him for the same.
  - Accommodation taken on lease by M/s. KSP Ltd. given to Mr. Kiran Kumar from 01.04.2013 at a concessional monthly rent of ₹ 5,000. The annual lease rent paid to the landlord by the company is ₹ 3,00,000.
  - Leave Travel Concession given to employee, his wife and three children (one daughter aged seven and twin sons aged three). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Kiran Kumar is eligible for availing exemption this year to the extent it is permissible in law.
  - Employer contribution of PF was 15% of the Basic salary plus dearness allowance. Equal amount was contributed by Mr. Kiran Kumar.
  - Professional tax paid is ₹ 3,000 of which ₹ 2,000 was paid by the employer.

Compute the Taxable Income of Mr. Kiran Kumar for the Asst. Year 2014–15 with suitable notes in support of your answer. 8

Please Turn Over

6. (a) Define the expression “transaction value” as per Section 4(3)(d) of the Central Excise Act., 1944. Should pre-delivery inspection charges and after-sale service charges collected by the dealers are to be included in the assessable value? 5
- (b) Under what circumstances can the penalty be imposed in terms of Section 112(a)(ii) of the Customs Act, 1962? 4
- (c) State with brief reasons, whether the following subsidies received during the year ended 31.03.2014 are capital or revenue in nature, as per the provisions of the Income Tax Act, 1961 :
- (i) Power subsidy received by Jayakrishna Flour Mills Pvt. Ltd., a manufacturing company, from the State Government, year after year, on the basis of actual power consumption; 3
- (ii) One-time subsidy, equivalent to 80% of State VAT paid in the year, received by RR Polyfibres Ltd. from the Tamil Nadu State Government under the scheme of industrial promotion for expansion of its capacity and modernization. 3
7. (a) Is the Port Trust liable to pay customs duty on imported goods pilfered by miscreants, while in their possession? 5
- (b) Write brief note on Export Promotion Councils in India. 5
- (c) Hema Textiles has two factories, whose clearances for home consumption, during the year ended 2012-13 were ₹ 140 lakhs and ₹ 300 lakhs. During the next year, the assessee anticipates huge export orders and is confident of exporting all its production in the first factory to USA. The clearances for home consumption in the other factory are likely to show 10% increase.
- Can the assessee avail SSI exemption for the year 2013-14 under Not. Nt. 8/2003-CE dated 01.03.2003? 3
- (d) Provide brief calculations/answers for the following question : 2
- Mr. A, an individual, purchased a car on 01.07.2012 for ₹ 6 lakhs. This is the only asset in the block. Apart from business use, it is estimated that 20% of the usage is for personal purposes. The car is sold on 30.03.2014 for ₹ 5 lakhs. No other asset was purchased in this block during the year ended 31.03.2014. Ascertain the short-term capital gain/loss chargeable to tax under Section 50 of the Income Tax Act, 1961.
8. (a) X Private Limited's Balance Sheet as on 31st March, 2014 reveals that the company issued shares for ₹ 10 lakhs during the previous year 2013-2014 to five individuals, who are residents in India. The Assessing officer having jurisdiction over the company asks those shareholders for explanations on the nature and source of the amount credited in the books of the company. The explanations offered by the shareholders regarding sources are not found satisfactory.
- Explain the income tax implications in the hands of X Private Limited. 5

(b) State the provisions under Central Excise Law regarding removal of inputs as such from the factory of a manufacturer or from the premises of the provider of output service. 5

(c) Answer the following :

(i) What do you mean by SION? Who fixes SION? 1

(ii) How is advance authorisation issued where SION does not exist? 1

(d) Calculate the amount of duty drawback allowable under Section 74 of the Customs Act. 1962 in following cases : 1×3=3

(i) Priyanka imported a motor car for her personal use and paid ₹ 5,00,000 as import duty. The car is re-exported after 6 months and 20 days.

(ii) Katrina imported wearing apparel and paid ₹ 50,000 as import duty. She used it and subsequently as she did not like the apparel, these are re-exported after 20 days.

(iii) FAB Tech Ltd. imported 10 computer systems paying customs duty of ₹ 50 lakh. Due to some technical problems, the computer systems were returned to foreign supplier after 2 months without using them at all.

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