

## FINAL EXAMINATION

December 2016

CHN-P-16(TMP)

Syllabus 2012

### Tax Management and Practice

Time Allowed: 3 Hours

Full Marks: 100

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

*Wherever required, the candidate may make suitable assumptions and state them clearly in the answers.*

*Working notes should form part of the relevant answer.*

*All sub-divisions of a question should be answered continuously.*

*All questions in Income Tax relate to the Assessment Year 2016-17, unless stated otherwise.*

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

1. (a) Choose the most appropriate alternative:

1×10=10

- (i) Which of the following income is not to be treated as income of a charitable trust from properties held under trust?
  - (A) Income from units of mutual funds specified in section 10(23D)
  - (B) Capital gain on sale of immovable property
  - (C) Agricultural income
  - (D) Interest on fixed deposit with banks
- (ii) Advance tax is not payable during a financial year, if the amount of income tax as reduced by the amount of tax deducted or collected at source is less than
  - (A) ₹ 10,000
  - (B) ₹ 7,500
  - (C) ₹ 5,000
  - (D) ₹ 2,500
- (iii) The rate of surcharge applicable to a domestic company having a total income of ₹ 7.50 crores is
  - (A) 5%
  - (B) 7%
  - (C) 10%
  - (D) 12%
- (iv) CENVAT credit is to be reversed if value of input service and service tax payable is not paid
  - (A) within 2 months of the date of invoice.
  - (B) within 3 months of the date of invoice.
  - (C) within 4 months of the date of invoice.
  - (D) within 6 months of the date of invoice.

**Please Turn Over**

- (v) Input which is not eligible for CENVAT credit is
- (A) light diesel oil.
  - (B) goods used for generation of electricity for captive consumption.
  - (C) accessories cleared along with the final product, the value of which is included in the value of the final product.
  - (D) stores consumed for manufacture of the final product.
- (vi) The threshold limit of consideration eligible for exemption from service tax in respect of performance in folk or classical art forms of music/ dance/ theatre is
- (A) ₹ 1,00,000
  - (B) ₹ 1,50,000
  - (C) ₹ 2,00,000
  - (D) ₹ 5,00,000
- (vii) When Service is rendered by a person located in non-taxable territory to a person in taxable territory then the person liable to pay service tax would be
- (A) none
  - (B) service provider
  - (C) service receiver
  - (D) both equally
- (viii) Time limit for return of capital goods from a job worker to the manufacturer for the purpose of availing CENVAT credit is
- (A) 6 months
  - (B) 1 year
  - (C) 18 months
  - (D) 2 years
- (ix) When Mr. A incurred medical expenditure for his father (age 70) of ₹ 25,000 and paid by cheque health insurance premium of ₹ 10,000 on father's policy, the quantum of deduction eligible under section 80D would be
- (A) ₹ 30,000
  - (B) ₹ 25,000
  - (C) ₹ 10,000
  - (D) ₹ 15,000
- (x) When a partnership firm consisting of four partners with equal share has brought forward business loss of ₹ 10 lakhs and one of the partners retired on 01.04.2016, the amount of business loss eligible for carry forward would be
- (A) ₹ 10 lakhs
  - (B) Nil
  - (C) ₹ 2.50 lakhs
  - (D) ₹ 7.50 lakhs

(b) Fill up the blanks:

1×10=10

- (i) Service provided by a guest house for lodging purpose is not liable to service tax, if the declared tariff of a unit of accommodation is less than ₹ \_\_\_\_\_.
- (ii) Central excise registration is granted within \_\_\_\_\_ working days of the receipt of a duly completed application form.
- (iii) Interest on compensation for acquisition of a property is chargeable to income tax in the year of \_\_\_\_\_ (accrual/ receipt).
- (iv) Maximum penalty under section 271B of the Income-tax Act for failure to furnish tax audit report within due date prescribed in section 44AB is ₹ \_\_\_\_\_.
- (v) Deduction under section 80G of the Income-tax Act is allowed at \_\_\_\_\_ % of the amount of donation made to Swachh Bharat Kosh.
- (vi) When a new industrial undertaking is set up in the State of West Bengal on or after 01.04.2015, the rate of additional depreciation applicable for the plant and machinery installed therein would be \_\_\_\_\_.
- (vii) The turnover limit prescribed under section 92BA for the specified domestic transaction is ₹ \_\_\_\_\_.
- (viii) When the quarterly statement of TDS is filed belatedly, the fee for default in furnishing the statement shall be ₹ \_\_\_\_\_ per day.
- (ix) The rate of service tax applicable in respect of a charitable institution conducting yoga classes would be \_\_\_\_\_.
- (x) Transport allowance granted to an employee, who is physically fit to meet his expenses for commuting between the place of residence and place of work is exempted under section 10(14) of the Income-tax Act to the extent of ₹ \_\_\_\_\_ per month.

2. (a) SA Associates, a partnership firm consisting of two partners, Sukanya and Ananya is engaged in the business of trading in leather goods in Kolkata.

The summarized Profit & Loss Account of the firm for the year ended 31st March, 2016 is given below:

Particulars	₹	Particulars	₹
Cost of goods sold and other expenses	89,95,000	Sales	95,50,000
Depreciation	50,000		
Net profit c/d	5,05,000		
	95,50,000		95,50,000
Interest on capital to Sukanya (at 15%)	1,50,000	Net profit b/d	5,05,000
<i>Partner's Remuneration:</i>			
Sukanya	1,44,000		
Ananya	1,20,000		
<i>Share of profit:</i>			
Sukanya	45,500		
Ananya	45,500		
	5,05,000		5,05,000

Please Turn Over

Additional Information:

- (i) Cost of goods sold includes cash purchase of ₹ 2,00,000 from a supplier on a single day.
- (ii) Interest on partners' capital and remuneration to partners are duly authorised by the partnership deed.

The firm opts to pay tax on presumptive basis under section 44AD of the Income-tax Act:

- (i) Compute the income of the firm under the head "profits and gains from business or profession" for Assessment Year 2016-17.
- (ii) If the firm does not wish to opt for presumptive scheme under section 44AD, what is the additional compliance burden for the firm? 8

- (b) Mr Subramani purchased 1000 equity shares in VKS Private Ltd. at a cost of ₹ 50 per share on 01.12.2012. VKS Private Ltd. has two divisions viz. textile division and paints division. Paints division was transferred on 1st October, 2015 by VKS Private Ltd. to RR Private Ltd. in a scheme of demerger which satisfies all the conditions laid down in section 2(19AA) of the Income-tax Act. Under the demerger scheme Mr. Subramani received 750 shares in RR Private Ltd.

Mr. Subramani sold 500 shares of VKS Private Ltd. and 600 shares of RR Private Ltd. at ₹ 200 per share and ₹ 300 per share respectively on 28.03.2016.

Net book value of assets transferred by VKS Private Ltd. to RR Private Ltd. was ₹ 25 lakhs. Paid-up capital and general reserve of VKS Private Ltd. immediately before demerger were ₹ 60 lakhs and ₹ 40 lakhs respectively.

Compute capital gain arising from above transactions in the hands Mr. Subramani for Assessment Year 2016-17 indicating briefly the reasons to support your answer.

Cost inflation index-Financial Year 2012-13: 852; financial year 2015-16: 1081. 8

3. (a) Statement of Profit & Loss of SRK Ltd., a company resident in India for the year ended 31.03.2016 shows a net profit of ₹ 25,00,000 after debit/ credit of the following items:

- (i) Items debited to Statement of Profit & Loss:

Particulars	₹
Provision for permanent diminution in valuation of Investments	85,000
Provision for gratuity made on the basis of actuarial valuation	1,50,000
Interest on term loan due to a bank (not paid before due date for filing return of income for Assessment Year 2016-17)	1,65,000
Penalty for violation of provisions of Foreign Exchange Management Act	1,00,000
Provision for loss of subsidiary company, MNO Ltd.	1,50,000

- (ii) Items credited to Statement of Profit & Loss:

Particulars	₹
Share in income of one association of persons as member	1,10,000
Income from units of mutual funds specified in section 10(23D)	80,000
Long-term capital gain	3,00,000

Additional information:

- (i) Balance of Statement of Profit & Loss shown in the Balance Sheet at the asset side as at 31.03.2015 was ₹ 15,00,000 which includes unabsorbed depreciation of ₹ 5,00,000.
- (ii) Long-term capital gain has been invested in bonds of National Highway Authority of India.
- (iii) The Association of Persons of which the company is a member has paid tax at maximum marginal rate.

Compute minimum alternate tax under section 115JB of the Income-tax Act for Assessment Year 2016-17 indicating brief reason for treatment of each item. 8

- (b) Good Health Trust is registered under section 12AA of the Income-tax Act and engaged in providing training in yoga and promoting yoga. During previous year 2015-16 details of gross receipts of the trust are as follows:

Particulars	₹
Receipts by way of fees for training in yoga and delegate fees for seminar on yoga	25,00,000
Interest on investments	5,50,000
	30,50,000

- (i) State with reasons whether the trust can retain its character of a charitable trust in Assessment Year 2016-17.
- (ii) Assuming that the trust is formed to run a gymnasium centre and its gross receipts comprise of training fees ₹ 3,80,000, voluntary contribution ₹ 7,20,000 and interest on investments ₹ 9,00,000, will it lose the character of charitable trust? 8

4. (a) Parikhshit holds 17% shares in Tintin Private Ltd. He gifted 12% shares to his wife, Prerana on their marriage anniversary on 01.12.2015. Prerana obtained a loan of ₹ 10 lakhs at 10% interest p.a. from Tintin Private Ltd. on 28.02.2016, when the accumulated profit of the company was ₹ 7.50 lakhs.

Examine the tax implication of the above transactions for Assessment Year 2016-17. 6

- (b) Anil, employed with a company furnished the following particulars of his investments and payments during the previous year 2015-16:

Particulars	₹
Contribution to Public Provident Fund	80,000
Five year term deposit with a nationalized bank	1,00,000
Life Insurance premium (on a policy with sum assured ₹ 1,20,000 taken on 1st June, 2015 on his own life)	15,000
Contribution at the rate of 15% of his salary to the National Pension Scheme of the Central Government. The employer made matching contribution	1,80,000

Compute the deduction that can be claimed by Anil under Chapter VI-A of the Income-tax Act for Assessment Year 2016-17. 6

- (c) The business premises of Bijli Private Ltd. were searched under section 132 of the Income-tax Act on 01.08.2015, when assessment proceedings under section 143(3) for Assessment Year 2013-14 and Assessment Year 2014-15 and reassessment proceeding under section 147 for Assessment Year 2011-12 were pending before the Assessing Officer.

Please Turn Over



- (i) State the assessment years for which notice under section 153A can be issued for making post-search assessment.
- (ii) Also state the fate of the pending assessments and reassessment.

4

5. (a) Mr. Srinivasan is owner of residential building at Chennai, in respect of which the following details are furnished to you:

- (i) Basement of the building is leased to Mr. Shantanam, who is a retail trader. Half of the basement is used by Mr. Shantanam as godown for storing his goods and the other half is used as his office.
- (ii) Ground floor of the building is let out to Mr. Rathi who uses the same as a guest house.
- (iii) First floor is occupied by Mr. Srinivasan for his residential purpose.
- (iv) Second floor is let out to Ms. Sumangala who uses the same as her residence.

For each floor of the building separate rent agreement/ lease deeds have been executed.

Examine the liability of Mr. Srinivasan to service tax in respect of the building.

Also state whether principle of bundled service shall apply.

8

- (b) MNO Ltd. imports a machine by air. CIF price of the machine is 5,000 US \$. Freight paid and insurance cost are 1,000 US \$ and 1,500 US \$. The bank realizes the payment from the importer at the exchange rate of ₹ 61 per US \$. The rate of exchange notified by the Central Board of Excise and Customs is ₹ 60 per US \$, while the exchange rate notified by RBI is ₹ 62 per US \$.

MNO Ltd. spends ₹ 50,000 in India for carrying out certain development activities with respect to the imported machine.

Basic customs duty is 10%, excise duty leviable on similar goods in India is 12.5% and education cess is 3% on duty. Additional duty of customs leviable under section 3(5) of the Customs Tariff Act is exempt.

Compute the amount of total customs duty payable by MNO Ltd.

8

6. (a) PQR Manufacturing Private Ltd. manufactures a product 'A' for captive consumption in the factory of the company. Following details are provided to you in respect of manufacture of the product 'A'.

Particulars	₹
Cost of direct materials consumed (including excise duty ₹ 12,500 for which CENVAT credit is available)	1,12,500
Direct labour cost	85,400
Consumption of stores and spares	12,600
Quality control cost	3,000
Research & Development cost	2,500
<i>Administrative cost:</i>	
Production overhead	4,500
Others	2,000
Selling and distribution cost	28,000
Scrap value realized	3,200

Determine the value of product 'A' for the purpose of excise duty under rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000. 8

- (b) In an appeal filed by Rishi Private Ltd., CESTAT passed an order holding that the activity carried on by the company attracts service tax liability. The company is willing to contest the order of the CESTAT.

Advise the company as to whether it can file appeal to the jurisdictional High Court on the question of levy of service tax on the activity carried on by the company. 4

- (c) Determine the place of provision of services and their taxability in the following cases: 2×2=4

- (i) Vinod, a consulting engineer provides his professional services to a company incorporated in UK in respect of an immovable property located in Cairo.
- (ii) XYZ Ltd. has been engaged by Oil & Gas Ltd. to provide specific services connected with exploration of oil and gas by virtue of a single agreement for a composite consideration in respect of specific sites in Tripura, Assam and Gujarat. The proportion of services provided by XYZ Ltd. in the above States is 25%, 65% and 10%. XYZ Ltd. does not have centralized registration.

7. (a) (i) CI Ltd entered into a contract with a foreign supplier for import of certain goods at US \$ 500 CIF per MT. Under the contract, the consignment was to be shipped in July 2015. However, time for shipment was extended mutually to 15.09.2015. Goods were actually shipped on 10.09.2015 at the price prevailing on the date of contract. The international market price of the goods had increased drastically after expiry of the original shipment period. The Revenue contended that the contract price could not be accepted as transaction value in terms of Rule 3 of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 and therefore, customs duty should be imposed on increased price.

Decide the correctness of the contention of the Revenue by a decided case law. 4

- (ii) Can penalty be imposed under rule 15(1) of the CENVAT Credit Rules, 2004 on the directors of the company for wrong CENVAT credit availed by company? 4

- (b) M/s. India Bakers manufactures biscuits named as 'India nuts'. Biscuits are notified under section 4A of the Central Excise Act, 1944 with an abatement of 30%. The following information has been furnished by M/s. India Bakers with regard to clearances of packs of 'India Nuts'.

- (i) 5000 packs having MRP of ₹ 100 per pack were sold in retail packages, but the buyer is charged for 4500 packs only at ₹ 90 per pack. (Further 100 packs were given free as quantity discount).
- (ii) 200 packs were given as samples, without any MRP on the pack.
- (iii) 1000 packs manufactured on job work basis for Mumbai Bakers, another bakery company, which were cleared after putting MRP of ₹ 100 each. Each such pack is sold by Mumbai Bakers at ₹ 80 to individual customers. Cost of raw material supplied by Mumbai Bakers is ₹ 30,000, job charges including profit of M/s. India Bakers is ₹ 15,000, transportation charges of raw material to M/s. India Bakers and biscuits to Mumbai Bakers is ₹ 5,000.

Please Turn Over

- (iv) 200 packs of biscuits having MRP ₹ 100 each were packed in a single package for protection and safety during transportation and cleared at ₹ 12,500. 1000 of such packages were cleared.

Determine the central excise duty payable, if rate of duty is 12.5%.

Note: Turnover of M/s. India Bakers in the previous financial year is ₹ 440 lakh.

8

8. (a) (i) What you understand by advance authorization scheme of duty exemption? Explain basic conditions of such authorization.

4

- (ii) A merchant exporter has annually exported goods whose FOB value ranged between \$ 5 million and \$ 10 million for the last 3 years. What is his status? What privileges is he eligible for?

4

- (b) Ms. Renu Kochar aged 28 years is a practicing cost accountant and a resident and citizen in India. Her income from profession in India for the previous year 2015-16 is ₹ 7,40,000 (Computed). During the year she visited Hong Kong to advise her clients located there and gross fee earned from clients in Hong Kong is ₹ 3,50,000. Tax paid on gross amount of fees in Hong Kong amounted to ₹ 87,500. Staff and overhead attributable to income derived in Hong Kong is ₹ 50,000. India does not have any double taxation avoidance agreement with Hong Kong.

She paid life insurance premium for self ₹ 1,10,000. She also paid ₹ 32,000 through credit card mediclaim insurance premium for her mother aged 61 years.

Determine the tax payable by Ms. Renu for Assessment Year 2016-17.

8