**FINAL EXAMINATION**

June 2017

***P-16(TMP)***
***Syllabus 2012***

**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 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 2017-18, unless stated otherwise.*

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

**1.** (a) Fill up the blanks: 1×10=10

(i) When the total income of a resident individual exceeds ₹1 crore the surcharge payable on income-tax would be ________________ % .

(ii) When a resident individual receives dividend from Indian company exceeding ₹ ________________ he is liable to tax.

(iii) When a foreign company has business income of ₹30 lakhs in India, the of tax rate applicable in respect of such income would be ________________ % (including surcharge and cess).

(iv) When an individual born in India travels as crew of a ship, his residential status would be reckoned with reference to ________________ certificate.

(v) When a charitable trust gets merged with a non-charitable institution the, tax on accreted income would be at ________________ rate.

(vi) Under excise law, goods not specified in the tariff are ________________ goods.

(vii) SSI exemption for jewellery manufacturer would be up to a turnover of ₹ ________________ crore in the year on the condition that the turnover was below ₹15 crore in the preceding year.

(viii) SSI units can avail CENVAT credit on capital goods at ________________ % in the year of acquisition of capital goods subject to the condition that the turnover for the year has exceeded ₹150 lakhs.

(ix) When the excise duty rate was 12·5% on the date of manufacture which got changed to 20% on the date of removal, the duty leviable shall be at the rate of ______________ %.

(x) For computation of import duty the rate of exchange notified by ______________ on the date of presentation of shipping bill is to be adopted.

(b) Choose the most appropriate alternative for the following; 1×10=10

(i) That recovery of tax from the buyer is an essential condition for levy of indirect taxes, is
- (A) true
- (B) not true
- (C) partially true
- (D) None of the above

(ii) Jewellery manufacture with turnover upto ₹________ crore in preceding year is eligible to avail 100% CENVAT credit on capital goods in the year of purchase.
- (A) 10
- (B) 12
- (C) 15
- (D) 20

(iii) MRP of ₹ 40 is printed on an excisable product sold in the State of Karnataka and ₹ 42 for rest of India. The assessable value adopted for the purposes of central excise will be
- (A) ₹ 42
- (B) ₹ 40
- (C) ₹ 41
- (D) ₹ 44

(iv) A product manufactured is not sold to outsiders, but captively used by the manufacturer himself, in the next process for manufacturing final product. If the cost of production is ₹ 60 per unit, for ascertaining the assessable value, the value adopted for the captively used product will be
- (A) Nil
- (B) ₹ 60
- (C) ₹ 63
- (D) ₹ 66

(v) For central excise purposes, the number of copies of Account Current distributed is
- (A) 1
- (B) 2
- (C) 3
- (D) 4

(vi) For transfer pricing purposes, an Advance Pricing Agreement is binding between
- (A) Assessee and Income-tax Department.
- (B) Assessee and the other Associated Enterprise involved.
- (C) Assessee and the RBI.
- (D) Binds none of the above parties.

(vii) The maximum period of validity of an Advance Pricing Agreement is
   (A) 10 years
   (B) 7 years
   (C) 5 years
   (D) 3 years

(viii) A foreign company F has furnished guarantee to an Indian banker for grant of bank loan to D, and Indian company. For the Associated Enterprise relationship to exist, such bank loan should be more than the following percentage of the total borrowings of D:
   (A) 7%
   (B) 10%
   (C) 15%
   (D) None of the above

(ix) For transfer pricing provisions to apply, the value of specified domestic transaction is
   (A) ₹ 5 crores
   (B) ₹ 7 crores
   (C) ₹ 10 crores
   (D) ₹ 20 crores

(x) Where a professional has opted for presumptive tax, the percentage of gross receipts treated as income from profession is
   (A) 8%
   (B) 15%
   (C) 25%
   (D) 50%

**2.** (a) The CIF value of goods imported by Mrs. Vasudha of Chennai is $ 40,000. The same includes freight of $ 4,700 and transit insurance of $ 300. Excise duty if manufactured in India will be 12%. Basic customs duty rate is 10%.

Ascertain the assessable value. Exchange rate = ₹ 71 per USD.

Compute the total customs duty payable by Mrs. Vasudha. 8

(b) Compute the Cenvat credit available to Vimala Fertilizers, a partnership firm, for the month of March, 2017 from the following details:

| **Particulars** | **Date of invoice** | **Service tax/excise duty paid (₹)** |
|---|---|---|
| Input service M | 10-02-2016 | 59,800 |
| Raw Material S | 12-01-2016 | 91,600 |
| Raw Material T | 29-04-2016 | 60,300 |
| Raw Material U | 11-05-2016 | 43,320 |
| New machinery purchased in company's name and installed at job worker's premises | 17-03-2017 | 3,60,000 |
| Payments made to GTA operators for moving raw materials to factory | 21-03-2017 | 21,700 |

The invoice for raw material U is found missing; invoice date is based on inward register. All raw materials and machinery have been received in the factory within 7 days from the date of invoice and consumed/ put to use immediately. In respect of the invoices above, Cenvet credit has not been claimed earlier. 8

**3.** Nanda & Co Ltd. engaged in jute manufacture furnishes you the following information for the year ended 31st March, 2017:

Net profit as per Statement of Profit & Loss ₹ 15,50,000 after debit/ credit of the following items:

(i) Provision for bad and doubtful debts ₹ 1,30,000.

(ii) Depreciation (as per the Companies Act, 2013) ₹ 90,000.

(iii) Constructed "Hanuman Mandir" (temple) for ₹ 3 lakhs within the factory for the benefit of employees. Construction completed in November 2016.

(iv) Capital subsidy received for generator from State Government ₹ 75,000 is credited to Statement of Profit & Loss. The generator was acquired in January 2017 and put to use immediately.

(v) Contribution to Indian Institute Technology, Kanpur for scientific research under an approved programme ₹ 2,00,000.

(vi) The company incurred expenditure of ₹ 60,00,000 towards approved Voluntary Retirement Scheme (VRS) in the financial year 2012-13. The unamortized amount of ₹ 24 lakhs was debited to Statement of Profit & Loss.

(vii) Loan advanced to subsidiary company, Das Mfg. Co (P) Ltd. of ₹ 10,00,000 was written off by debit to Statement of Profit & Loss.

(viii) Expenditure towards feasibility study for technological advancement in manufacturing process ₹ 7,00,000. The move was abandoned by the Board of Directors.

(ix) Expenditure towards issue of 10% debentures ₹ 5,00,000. The debenture proceeds were to augment working capital of the existing business.

(x) A one-time settlement (OTS) was entered into with bank, by which term loan for purchase of machinery ₹ 8,20,000 and interest on term loan of ₹ 1,30,000 were waived. These amounts are credited to Statement of Profit Loss.

(xi) Tax on non-monetary perquisites provided to employees ₹ 3,50,000 is debited to Statement of Profit & Loss.

Additional information:

The company has depreciable assets as under:

(i)

| Particulars | Furniture & Fittings ₹ | Plant & Machinary ₹ |
|---|---|---|
| Opening WDV | 1,00,000 | 27,00,000 |
| Purchases upto 30.09.2016 | 50,000 | 17,50,000 |
| Generator acquired (as per Bill) on 14.01.2017 | ---- | 3,75,000 |

(ii) A contract payment of ₹ 5 lakh for which tax deducted at source was not remitted up to the 'due date' for filing the return and hence was disallowed in assessment year 2016-17. The TDS amount was remitted in February 2017.

(iii) A raw material supplier from whom a purchase was made in April 2015 for ₹ 37,000 insisted payment on urgent basis. To salvage reputation, the company paid the amount in cash on 15.08.2016.

You are required to compute the total income of the company, giving reasons for treatment of each item. Ignore MAT provisions. 16

**4.** (a) Discuss whether remission of customs duty is permissible under section 23 of the Customs Act, 1962 when the remission application is filed after the expiry of the warehousing period (including extended warehousing period). 8

(b) Ramya & Co., a partnership firm rendering taxable services, has its head office at Kolkata. It has two branches, one at Chennai and another at Jammu. The Chennai branch has rendered services (which are not in the negative list or covered by Mega Exemption) to the head office which has also rendered some services to Jammu branch.

Will these services be taxed and if so, who is liable to pay the service tax? 8

**5.** (a) Shri Vasudev acquired a vacant land for ₹ 60,000 on 01.07.1981. He constructed a commercial building for ₹ 10 lakhs in the previous year 2010-11. He entered into an agreement with Krishna on 01.09.2014 for sale of property and received ₹ 2 lakhs as advance. As Shri Krishna could not arrange funds within the stipulated time prescribed by the agreement, Shri Vasudev forfeited the advance money on 30.03.2015.

Again Shri Vasudev entered into a written agreement with Shri Balaram on 01.02.2016 and received advance money of ₹ 5 lakhs by NEFT (i.e. through electronic transfer of funds in banking channel). As per the agreement, Shri Vasudev had to demolish the building and handover only the vacant land to Mr. Balaram. The sale consideration agreed to by the parties was ₹ 60 lakhs which was also the value as per State stamp valuation authority.

The sale deed was executed and registered on 01.09.2016 at the agreed price but on that date the value of property for stamp duty purposes was ₹ 70 lakhs. Shri Vasudev paid 1% as brokerage on the sale consideration. He acquired a residential apartment for ₹ 25 lakhs and deposited ₹ 5 lakhs in capital gains bond issued by National Highway Authority of India Ltd. before 31.01.2017.

Assume that Shri. Vasudev has no other immovable property except the said capital asset.

You are acquired to compute the capital gain chargeable to tax in the hands of Shri Vasudev for the assessment year 2017-18.

Cost inflation index :

| F.Y: | CII |
|---|---|
| 1981-82 | 100 |
| 2010-11 | 711 |
| 2014-15 | 1024 |
| 2015-16 | 1081 |
| 2016-17 | 1125 |

8

(b) The following particulars relating to Mr. Saravanan for 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) | 80,000 | |
| Loss from let out house property | (–) 45,000 | |
| *Other information*: | | |
| Contribution in the name of 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 Navarang Charitable Trust registered under section 12AA and recognised for section 80G purposes | | 60,000 |

Compute the deduction available to him under Chapter VIA of the Income-tax Act, 1961. 8

6. (a) Manoj Generators Ltd. is engaged in manufacture of generators sold a generator to Kapil Ltd. The sale price of the generator (including excise duty @ 12.5%) but excluding VAT (@5%) is ₹ 6,75,000. The following items were charged separately and collected.

| S.No. | Particulars | ₹ |
|---|---|---|
| (i) | Warranty charges | 25,000 |
| (ii) | Design, engineering and charges | 35,000 |
| (iii) | Cost of primary packing ₹ 3,000 and secondary packing ₹ 7,000 | |
| (iv) | Pre-delivery inspection charges | 22,000 |
| (v) | After sales service charges | 20,000 |
| (vi) | Bought out accessories supplied along with generator | 30,000 |
| (vii) | Cost of material worth ₹ 15,000 was supplied free of charge by Kapil Ltd. to Manoj Ltd. for being used in production of generator | |

Determine the assessable value of the generator for the purpose of Central Excise duty. 8

(b) Dhoni Ltd is engaged in manufacturing activity. It purchased the following goods/incurred expenses in the month of January, 2017.

| S.No. | Items | Excise duty paid (₹) |
|---|---|---|
| (i) | Raw material used for production of final product | 3,00,000 |
| (ii) | Moulds and dies | 60,000 |
| (iii) | Cooking gas for canteen in workers factory | 20,000 |
| (iv) | Goods for providing warranty: Value of free-warranty is included in the price of final product and charged separately. | 1,00,000 |
| | | Service tax paid including SHES & KKC |
| (v) | Sales promotion service | 75,000 |

A fire broke out in the factory and payment of duty remitted was ₹ 60,000 under rule 21 of the Central Excise Rules, 2002. The company had paid (i) service tax of ₹ 30,000 (including SHES and KKC); and (ii) excise duty of ₹ 50,000 on raw materials used for manufacture of goods which were destroyed by fire.

Compute the CENVAT credit available to the assessee. 8

**7.** (a) Vallabh & Co., is a partnership firm. For the year ended 31.03.2017, the following particulars are made available to you in respect of its trading business, for which books are maintained:

(i) Secret commission of ₹ 60,000 paid to a Government official.

(ii) ₹ 15 lakhs paid as commission to a partner's son at 0·5% of the sales value, without deduction of tax at source.

(iii) Loss in the above business, after considering the above items debited to the profit and loss account are: Business loss ₹ 80 lakhs, Unabsorbed depreciation ₹ 19 lakhs.

The firm has a warehouse business covered by section 35AD. Loss suffered therein is ₹ 60 lakhs.

The firm has filed the return of income for the assessment year 2017-18 on 28.11.2017. Specify the items (with quantum) which are eligible for carry forward to the subsequent years.

Will your answer remain the same, if the firm has submitted its return of income on 28.12.2017? 8

(b) Vatsan & Co is an AOP consisting of Ajay (age 55), Vijay (age 62) and Sanjay (age 57) with equal profit sharing rights. The Profit and Loss Account for the year ended 31.03.2017 is given below:

| | (₹ in lakhs) | | (₹ in lakhs) |
|---|---|---|---|
| To Administration expenses | 5·40 | By Gross Profit | 17·00 |
| To Bank Interest (Term loan) | 1·80 | | |
| To Donations | 0·30 | | |
| To Salary: | | | |
| Ajay | 1·00 | | |
| Sanjay | 1·00 | | |
| To Interest on Capital @ 18% | | | |
| Ajay | 1·20 | | |
| Vijay | 1·80 | | |
| Sanjay | 1·50 | | |
| To Net Profit | | | |
| Ajay | 1·00 | | |
| Vijay | 1·00 | | |
| Sanjay | 1·00 | | |
| | 17·00 | | 17·00 |

Other information:

(i) Bank interest on term loan of ₹ 38,000 will not be paid till the 'due date' for filing the return specified in section 139(1).

(ii) Donations include ₹ 14,000 paid to an unrecognized trust and the balance to eligible institutions approved under section 80G.

(iii) Other income of Ajay, Vijay and Sanjay are ₹ 2,10,000; ₹ 2,90,000 and ₹ 2,45,000 respectively.

Compute the total income and taxability of Vatsan & Co (AOP) and that of Ajay, Vijay and Sanjay for the Assessment Year 2017-18. 8

**8.** (a) Mr. Prakash is seeking your advice on taxability of following receipt against different services. Please pride your opinion on taxability of such services with availability of abatement if any under service tax laws :

(i) Transport of passengers by ropeway — ₹ 10 lakhs

(ii) Transportation of passengers in radio taxi — ₹ 3 lakhs

(iii) Transportation of passengers through metered cabs — ₹ 5 lakhs 5

(b) Discuss the correctness or otherwise of the following statements with reference to the provisions of the Income-tax Act, 1961:

(i) The Commissioner (Appeals) cannot admit an appeal filed beyond 30 days from the date of receipt of order by an assessee.

(ii) The Appellate Tribunal is empowered to grant indefinite stay for the demand disputed in appeals before it. (2½ + 2½)=5

(c) (i) Dr. Balasubramaniam after visiting USA for a month returned to India on 10.03.2017. He brought a laptop valued at ₹ 80,000, used personal effects valued at Rs. 90,000 and a personal computer for ₹ 60,000. How much custom duty is payable? 4

(ii) State the class of importers who are required to pay customs duty electronically on mandatory basis. 2