Paper 16 – Tax Management and Practice

Time Allowed: 3 hours **Full Marks: 100**

This paper contains 9 questions, divided in two sections Section A and Section B. In total 7 questions are to be answered. Answer any five questions from Section A (out of six questions - Questions Nos. 1 to 6).

In Section B, Question No.9 is compulsory and answer any one question from the remaining two questions of the section (i.e. out of Question nos. 7 & 8).

Students are requested to read the instructions against each individual question also. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

All the questions relate to the assessment year 2014-15, unless stated otherwise.

Section A
Answer any five Questions

1. (a) From the following particulars compute the 'Income from House Property' of Mr. Mitra for the Assessment Year 2014 - 2015 :

Mr. Mitra inherited a property on 1.4.2010 from which gross rental income is ₹30,000 per year. Municipal Tax of the property is ₹1,000 per quarter of which 50% is borne by the tenant Mr. Mitra took loan of ₹80,000 from a bank for heavy repairing of the property out of which he spent ₹40,000 for his sister's marriage and the balance spent for repairing of the property. He paid during the year 2013-2014 ₹6,000 as interest on bank loan and spent ₹100 per month for collection of rent. **[7]**

(ii) From the following information of Mr. A. S. Ghosh, compute the income from salary for the Assessment Year 2014-15.

(1) Net salary ₹1,20,000. (2) Amount deducted from salary at source ₹10,000 for employee's contribution to R.P.F. and for rent ₹ 500 p.m. (3) Bonus ₹10,000 (4) Dearness allowance ₹12,000. (5) Conveyance allowance ₹5,000. (6) Medical allowance ₹4,000. (7) Employer's contribution to R.P.F. @ 13% on basic plus D.A. (8) Interest on R.P.F. @ 14% is ₹5,600.

He has been provided a rent-free accommodation at Kolkata including furniture costing ₹50,000. **[7]**

2. (a) Following transactions took place in the factory of Arvind Ltd. —

(i) An imported consignment of Raw Materials was received vide Bill of Entry dated 2nd Dec, showing the following Customs Duty payments —

Basic Customs Duty	₹23,000
Additional Duty (CVD)	₹20,000
Special Additional Duty	₹5,800

(ii) A consignment of 1,000 kgs of inputs was received. The Excise Duty paid as per the invoice was ₹10,000. While the input was being unloaded 50 kgs were damaged, and were found to be not usable.

(iii) Some inputs for final product were received. These were accompanied by a certified Xerox Copy (photo copy) of Invoice No. 356 dated 23rd Dec. indicating the Excise duty of ₹6,400 has been paid on inputs. The original for duplicate copy of invoice are not traceable.

Indicate the eligibility of CENVAT Credit under the CENVAT Credit Rules, 2004 with explanations where necessary. **[7]**

(b) M/s. Mili Pvt. Ltd., not an SSI unit, purchased fibre 10,000 kg @ ₹50 per kg plus excise duty. The said fibre was used to manufacture intermediate product yarn. The said yarn was captively used for the manufacture of fabrics. The said fabric was exempt from duty. The other information are as follows:

- **(i)** Normal processing loss: 2% of inputs in manufacture of yarn
- **(ii)** Rate of excise duty on all products is 12.36%;
- **(iii)** Assessable Value of yarn: ₹80 per Kg.;
- **(iv)** Assessable Value of Fabric (Total): ₹13 lakhs;
- **(v)** Colouring Dyes used in the manufacture of Fabric: ₹2 lakhs plus excise duty.
- **(vi)** Duty on Capital Goods imported during the period and used in the manufacture of yarn: Basic Customs Duty ₹20,000; Additional duty of customs under section 3(1) of the Customs Tariff ₹30,000; Additional duty of customs under section 3(5) of the Customs Tariff Act ₹10,000.

Compute - (i) CENVAT Credit available; (ii) Duty payable. **[7]**

3. (a) Miss Titir started a business of manufacturing cosmetic goods. She incurred the following expenses before the commencement of her business:

S.N.		₹
(i)	Expenses for market survey	25,000
(ii)	Legal charges for drafting an agreement with other for setting up her business	20,000
(iii)	Expenses for preparation of feasibility report	15,000
(iv)	Expenditure for raising loan for the business	4,000

Her business was started on 1.7.08:

Book value of assets on 31.3.09 were:

S.N.		₹
(i)	Building	10,00,000
(ii)	Machinery	10,00,000
(iii)	Furniture	4,00,000
(iv)	Stock	4,00,000
(v)	Patent	1,00,000

Calculate the allowable preliminary expenditure for the Assessment Year 2014-15. **[7]**

(b) Compute the duty payable under the Customs Act, 1962 for an imported machinery based on the following information:

- (i) Assessable value of the imported equipment US $ 12,000.
- (ii) Date of Bill of Entry 25.03.2014 basic customs duty on this date 20% and exchange rate notified by the Central Board of Excise and Customs US $ 1 = ₹ 65.
- (iii) Date of Entry inwards 21.03.2014 Basic customs duty on this date 16% and exchange rate notified by the Central Board of Excise and Customs US $ 1 = ₹ 57.
- (iv) Additional duty payable under Section 3(1) and (2) of the Customs Tariff Act, 1975: 15%.

(v) Additional duty under Section 3(5) of the Customs Tariff Act, 1975: 4%.
(vi) Education Cess @ 2% in terms of the Finance (No. 2) Act, 2004 and secondary and higher education cess @ 1% in terms of the Finance Act, 2007.

Make suitable assumptions where required and show the relevant workings and round off your answer to the nearest Rupee. **[7]**

4. (a) An importer imported some goods for subsequent sale in India at $ 30,000 on CIF basis. Relevant exchange rate as notified by the Central Government ₹60. The item imported attracts basic duty at 10% and education Cess as applicable. If similar goods were manufactured in India, Excise Duty payable as per Tariff is 14% plus education Cess of 2% and SAH 1%. Special Additional Customs Duty is 4%. Find the total duty payable. **[7]**

(b) State with reasons whether service tax will be levied or not on the interest in relation to overdraft, cash credit, bill discount or exchange in the region of Banking and financial services. **[3]**

(c) Determine the Point of Taxation in each of following independent cases in accordance with point of Taxation Rules, 2011.

S. No.	Date of actual provision of service	Time [date] of Invoice, Bill or Challan as the case may be	Date on which payment received
1	10.04.2013	30.04.2013	06.04.2013 (part) and 16.04.2013 (remaining)
2.	10.04.2013	12.05.2013	30.04.2013
3.	10.04.2013	12.05.2013	05.04.2013 (part) and 25.04.2013 (remaining)
4.	10.04.2013	22.05.2013	12.06.2013

[4]

5. (a) Ms. Jennifer D' Souza, an individual resident Indian, aged 62 years, frequently visits a foreign university to deliver lectures and receives honorarium of ₹3,35,000 for the same. Tax of ₹33,500 was deducted in the foreign country. India did not have any double taxation avoidance agreement with that foreign country. The particulars of income earned in India are stated as follows:

(i) In India, her total income amounted to ₹10,20,000.
(ii) Contribution to the Public Provident fund - ₹1,40,000.
(iii) Contribution to the approved Pension Fund of LIC- ₹64,000.
(iv) Contribution to Central Government Health Scheme during the previous year- ₹36000.
(v) Payment of medical Insurance premium, for mother (who is not dependent on her) - ₹21,000.

Compute the tax liability of Ms. Jennifer D' Souza for the Assessment Year 2014-15. **[7]**

(b) Mr. Rajendra Sinha, an individual, furnishes the following information, relating to the assets and liabilities as on 31.03.2014:

Sl. No	Particulars	Amount (₹)
(i)	Plot of land at Mumbai, comprising an area of 1200 square meters, (on which building has been constructed without the approval of the appropriate authority).	50,00,000
(ii)	Building constructed on land at Mumbai, without the approval of the appropriate authority, and used for his business purposes.	20,00,000
(iii)	Two residential house properties, (one of the house properties is used for the purpose of business, by Mr. RajendraSinha)	10,00,000 (each)

(iv)	Urban Land was purchased in August 2011 located in Pune, in the name of his son who is suffering from a disability specified under Section 80U of the Income Tax Act, 1961. The age of his son on 31.03.2014 was 17 years.	5,00,000
(v)	House located in Ahmedabad, shown in his wealth-tax return for the A.Y 2013-14 at ₹50 Lakh was sold on 20.03.2014 for ₹60 Lakh, but the sale deed thereof was executed on 03.04.2014.	55,00,000
(vi)	Motor cars held as stock-in-trade.	75,00,000
(vii)	Gold jewellery brought into India from Singapore, where he was residing, on his return to India on 01.11.2009, for permanently residing in India.	12,00,000
(viii)	Jewellery made of platinum.	18,00,000
(ix)	Jewellery gifted to wife from time to time, were available with her on the valuation date. The jewellery was acquired for ₹10 Lakhs.	35,00,000 (Fair Market Value)
(x)	Interest in the coparcenary property of the Hindu Undivided Family, of which he is a member.	25,00,000
(xi)	Cash in hand, recorded in the books of account.	10,00,000
(xii)	Fixed Deposits in a co-operative bank.	20,00,000
Liabilities		
(xiii)	Loan borrowed for marriage of daughter	12,00,000
(xiv)	Loan borrowed for construction of building at Mumbai	10,00,000

The minor married daughter of Mr. RajendraSinha holds a plot of land at Bhopal, valued at ₹40 Lakhs. The amounts stated against the assets, except cash in hand, are the values determined as per Section 7 of the Wealth Tax Act, 1957 read with Schedule III thereto.
Compute the net wealth of Mr. RajendraSinha, as on the valuation date 31.03.2014.
State the reasons for inclusion, or exclusion of the various items. **[7]**

6. (a) Compute the net VAT liability of Ritesh using the information given as follows:-

Raw material purchased from foreign market (including duty paid on imports @ 20%): ₹13,200
Raw material purchased from local market (including VAT charged on the material @ 4%): ₹22,880
Raw material purchased from neighbouring state (including CST paid on purchases @ 2%): ₹7,854
Storage, transportation cost and interest: ₹2,750
Other manufacturing expenses incurred: ₹660
Ritesh sold the goods to Binay and earned profit @ 10% on the cost of production. VAT rate on sale of such goods is 12.5%. **[7]**

(b) Sterling Machine Works Ltd., an Indian company declared an income of ₹ 450 crores. However, this income was declared before taking into account the following adjustments:

- 25,000 machines were sold to Diamond Industries Ltd at a price, which is lower than the normal transaction price by $250 per car. Diamond Industries Ltd. holds 35% shares in Sterling Machine Works Ltd.
- Wellington Ltd. was paid a royalty of $2,40,00,000, for use of its technical know-how. However, another Indian company had paid $2,00,00,000 as royalty to Wellington Ltd. for a similar transaction. Sterling Machine Works Ltd. was completely dependent on the technical knowhow supplied by Wellington Ltd., for the manufacture of the machineries.
- Beijing Finance Ltd. extended a loan of Euro 850 crores to Sterling Machine Works Ltd., carrying an interest @10% p.a, which was outstanding in the books of Sterling Machine Works Ltd. as on 31.03.2014. Beijing Finance Ltd. had extended a loan of similar amount to

another Indian company @ 9% p.a. Total interest paid for the year was Euro 85 crores. The total assets of Sterling Machine Works Ltd., as on 31.03.2014 was ₹100,000 crores.
The value of 1$ and 1 Euro may be taken to be ₹62 and ₹82 respectively.

With reference to the provisions of the Act, analyse the nature of transactions, and determine the income of the company chargeable to tax for the A.Y 2014-15. **[7]**

Section B
Question no. 9 is compulsory and Answer any one Question from 7 & 8.

7. Answer the following Questions [8 +7 =15]

(a) Whether for the purpose of Section 54EC of IT Act, 1961, the period of investment of six months should be reckoned after the date of transfer or from the end of the month in which transfer of capital asset took place? **[8]**

(b) Did the Income Tax Appellate Tribunal (ITAT) fall into error in not holding that the loss of ₹4,92,71,000/- on account of derivative transaction was a speculative loss, and was entitled to the benefit of Section 73, in view of the Explanation to Section 73 of the Income Tax Act. **[7]**

8. Answer the following Questions [8+7=15]

(a) Will the two units of a single legal entity surrounded by a common boundary wall be considered as one factory for the purpose of availing CENVAT credit, if they have separate central excise registrations? **[8]**
(b) Whether the manufacture and sale of the specified goods that do not physically bear a brand name, from sale outlets, would disentitle the assessee from benefit of SSI exemption? **[7]**

9. Answer the following Questions [8+7=15]

(a) Whether the assessee manufactures blank CDs/DVDs as an intermediate product to be classifiable as excisable goods?
Whether the writ petition was maintainable for quashing of a show cause notice and also of an adjudication order when the alternative remedies by way of an appeal has not been exhausted. **[8]**

(b) Whether consideration for transfer of sales tax incentive taxable as revenue receipt? **[7]**