

PAPER – 16: Tax Management and Practice

MTP_Final_Syllabus 2012_Dec2015_Set 2

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
	APPLICATION How you are expected to apply your knowledge	Illustrate	Use an example to describe or explain something
		Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
	ANALYSIS How you are expected to analyse the detail of what you have learned	Tabulate	Arrange in a table
		Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Produce	Create or bring into existence
		Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Decide	To solve or conclude	
	Advise	Counsel, inform or notify	
	Evaluate	Appraise or assess the value of	
		Recommend	Propose a course of action

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 2015-16, unless stated otherwise.

Section A

Answer any five Questions

1. (a) (i) XY & Co. a partnership firm engaged in the manufacturing business has a total turnover of ₹59,00,000 from such business. The partnership deed provides for payment of salary of ₹10,000 p.m. to each of the partners i.e. X and Y. The firm uses machinery for the purpose of its business and the WDV of the machinery as on 01.04.2014 is ₹2,00,000. The machinery is eligible for depreciation @ 15%. Compute the profits from the business, if the firm opts for the scheme under section 44AD.

What will be profit from the business, if each partner is paid ₹20,000 p.m. as salary instead of ₹10,000 p.m. **[3]**

(ii) PQR Ltd is a manufacturer of Steel and allied products. Its Income for Ay 2015–2016 is as follows -

1. Profits and gains from Business computed under the provisions of Income Tax Act	19,50,000
2. Book Profit	1,00,40,000

Compute the Tax payable by the Company. **[5]**

(b)(i) Rohit has a house property in Delhi whose Municipal Value is ₹1,00,000 and the Fair Rental Value is ₹1,20,000. It was self occupied by Rohit from 01.04.2014 to 31.07.2014. W.e.f. 01.08.2014 it was let out at ₹9,000 p.m. Compute the annual value of the house property for the assessment year 2015-16 if the municipal taxes paid during the year were ₹20,000. **[2]**

(ii) An electricity company which was charging depreciation on straight line method and whose actual cost of the asset was ₹5,00,000 and written down value ₹4,50,000 sold the said asset during 2014-15 after 2 years. What will be the tax treatment if the asset is sold for:

(I) ₹3,50,000

(II) ₹4,80,000

(III) ₹6,00,000 **[2]**

MTP_Final_Syllabus 2012_Dec2015_Set 2

(iii) X joined a service on 01.08.2010 in the grade of ₹12,000 - 300 - 13,800 - 400 - 17,800 and his salary was fixed at ₹14,200 from the date of joining. Compute his basic salary for the assessment year 2015-16. [2]

2.(a) The following information relates to purchases and sales of Prism Ltd. for the month of May, 2014:

	₹
Purchases for resale within the State	7,00,000
Purchases from registered dealers who opted for composition scheme	4,00,000
Purchases to be used as consumable stores for manufacture of taxable goods	6,00,000
Purchases of goods where invoices does not show the amount of taxes separately	5,00,000
Purchases of goods for personal consumption	2,00,000
Purchases of capital goods (not eligible for input credit)	5,50,000
Purchases of capital goods (eligible for input credit)	5,76,000

Sales made within the State during the month of May, 2014 was ₹ 50,00,000 on which VAT @ 4% was payable. The input VAT credit on eligible capital goods is available in 24 equal monthly installments. Assuming that all purchases given above are exclusive of VAT @ 12.5%, calculate:

- (A) The amount of input tax credit available for the month of May, 2014.
 (B) VAT payable for the month of May, 2014.
 (C) Input tax credit carried forward. [6]

(b) (i) A Ltd. has given a Turnkey Contract to B Ltd. for erection, installation and commissioning of a Central Air Conditioning Plant. The Central Excise Officer raises a demand for Excise Duty on B Ltd in respect of the installed plant. Examine as to whether the Excise Duty is payable on the Plant. [3]

(ii) D Ltd., engaged in the manufacture of Machines (and not availing Small-Scale oncession) sold a Machine to A Ltd. The Cum-Duty Sale Price of the Machine excluding VAT is ₹5,80,000. Rate of Excise Duty is 12%, Education Cess is 2% and Secondary Higher Education Cess is 1%. Sale Price includes the following Charges:

Particulars	₹
Warranty Charges	28,000
Secondary Packing	6,000
Trade Discount actually allowed	30,000
Design and Development Charges of Machine	20,000
Primary Packing	10,000
Cost of return fare of vehicles	5,000
Advertisement & Publicity charges borne by A Ltd.	16,000
Pre-Delivery Inspection Charges	22,000
After Sales Service Charges	18,000

Determine the Assessable Value of the machine for the purpose of Central Excise Duty. Provide notes in respect of the treatment for each of the items listed above. [5]

MTP_Final_Syllabus 2012_Dec2015_Set 2

(3)(a)(i) Boulevard Inc. a French Company, holds 40% of Equity in the Indian Company Vasak Technologies Ltd (VTL). VTL is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes Boulevard Inc.

During the year, VTL had spent 2,000 Man Hours for developing and maintaining software for Boulevard Inc, with each hour being billed at ₹ 1,350. Costs incurred by VTL for executing work for Boulevard Inc. amount to ₹ 18,00,000.

VTL had also undertaken developing software for Bal Industries Ltd for which VTL had billed at ₹ 2,700 per Man Hour. The persons working for Bal Industries Ltd and Boulevard were part of the same team and were of matching credentials and caliber. VTL had made a Gross Profit of 50% on the Bal Industries work.

VTL's transactions with Boulevard Inc. is comparable to transactions with Bal Industries, subject to following differences -

- (I) Boulevard gives technical knowhow support to VTL which can be valued at 8% of the Normal Gross Profit. Bal Industries does not provide any such support.
- (II) Since the work for Boulevard involved huge number of man hours, a quantity discount of 14% of Normal Gross Profits was given.
- (III) VTL had offered 90 Days credit to Boulevard the cost of which is measured at 2% of the Normal Billing Rate. No such discount was offered to Bal Industries Ltd.

Compute ALP and the amount of increase in Total Income of Vasal Technologies Ltd.

[5]

(ii) Define Advance Pricing Agreement?

[2]

(b) TLT Industries furnishes the details of its activities undertaken in the month of May, 2014 as under (Amounts are exclusive of service tax):

S. No.	Particulars	Amount (₹)
1.	Supply of farm labour	60,000
2.	Warehousing of refined vegetable oil	1,30,000
3.	Sale of wheat on commission basis	60,000
4.	Hiring of trucks for transport of minerals	2,50,000
5.	Leasing of vacant land to a stud farm	40,000
6.	Renting of farmhouse for marriage and birthday parties	45,000
7.	Dehusking of paddy in rice mill	30,000

Compute the service tax liability of company for the month of May, 2014.

Assume that the point of taxation in respect of all the activities falls in the month of May, 2014 itself. Company had paid service tax ₹ 3,18,000 during the Financial Year 2013-14.

[7]

MTP_Final_Syllabus 2012_Dec2015_Set 2

4.(a) Ms. Roy, a resident of India and carrying out her profession in USA, returned back to India after 2 years of stay and brought -

1. Used personal effects (including jewellery ₹1,10,000): ₹ 1,60,000 ;
2. Professional equipments : ₹ 1,20,000 (including personal computer : ₹ 45,000)
3. Used household articles : ₹ 25,000 ;

Determine duty payable by Ms. Roy.

Assume that Ms. Roy is not eligible for concession available on termination of work under Rule 5 of the Baggage Rules, 1998 and concession on transfer of residence under Rule 8.

[6]

(b)(i) C Ltd. is a manufacturer of tooth powder, which is a commodity notified u/s 4A of the Central Excise Act, 1944 and the notified percentage of abatement is 35%. It sells tooth powder in cans to various retail shop-keepers and gives 2 cans free along with purchase of every 100 cans. The MRP indicated on each can is ₹ 150 per cans. The transaction value is ₹130 per can. During a month, M/s. C Ltd. sold 1,00,000 cans and gave away 2,000 cans free to the retail shop-keepers. Compute the amount of excise duty payable by C Ltd. Excise Duty is 12%. **[4]**

(ii). ABC Bank provides the following information for the month of June:

CENVAT Credit available on Inputs	2,50,000
CENVAT Credit available on Inputs Services	3,00,000
Service Tax liability before availing eligible CENVAT	10,00,000

Determine the amount of CENVAT Credit available to ABC Bank for the month of June, 2014 in view of Rule 6(3B) of CENVAT Credit Rules, 2004. Also determine the net service tax liability of the bank after availing the eligible CENVAT Credit. **[4]**

5.(a) (i) A Ltd. has an industrial plot which was purchased on 14.10.1986 for ₹2,00,000. It has since been used for its industrial purposes as an open stockyard. This plot was compulsorily acquired by the Government on 15.11.2010 and a sum of ₹11,90,000 was determined as compensation which was received by the company on 04.04.2013. The company, not being satisfied with the compensation appealed against the above award and the compensation was enhanced by ₹1,00,000 on 30.01.2014 but the enhanced compensation was received on 05.04.2014. Meanwhile, the assessee purchased another industrial plot on 15.09.2013 for ₹1,90,000. On receipt of the enhanced compensation, the company deposited the entire amount under the Capital Gains Accounts Scheme on 30.09.2015. Till the time the amount was deposited, the company used the said amount of ₹1,00,000 for its business purposes. Compute the capital gains for various assessment years arising on this transaction. **[4]**

(ii) From the following information submitted to you, compute the total income of A for the assessment year 2015-16 and calculate his tax liability assuming he is not allowed any deduction under sections 80C to 80U.

	₹
Income from salary	1,80,000
Income from house property	40,000
Business loss	(-) 1,90,000
Loss from a specified business referred to in section 35AD	(-) 60,000

MTP_Final_Syllabus 2012_Dec2015_Set 2

Short-term capital loss	(-) 60,000
Long-term capital gain	2,40,000

[4]

(b)(i) X owns the following commercial vehicles:

- (I) 2 light commercial vehicles — One for 9 months and two days and the other for 12 months.
- (II) 2 heavy goods vehicle — one for 6 months and 25 days and the other for 11 months and 12 days
- (III) 2 medium goods vehicles — One for 6 months and the other for 8 months and 15 days.
 - A. Compute the income from business if X opts for the scheme u/s 44AE. Also compute his tax liability for the assessment year 2015-16, if he deposits ₹20,000 in PPF Account during the previous year.
 - B. What will be the income if the trucks were not used for business for two months during the year due to strike?

[3]

(ii) An Assessing Officer made an order of Assessment on Ramnath determining the Total Income at ₹ 3,75,000 by an order dated 30.03.2015 in respect of Assessment Year 2012-2013. This was served on the Assessee on 02.04.2015. A tax of ₹1,87,500 was determined subsequently and a Demand Notice served on the Assessee on 20.07.2015. Discuss the validity of the proceedings in the above case.

[3]

(6)(i) A, a Resident Indian aged 21 years, earned a sum of ₹10 Lakhs during the Previous Year 2014-2015 from playing Badminton Matches in a Country with which India does not have Double Taxation Avoidance Agreement. Tax of ₹2 Lakhs was levied on such income in the source country. In India, he earned ₹15 Lakhs during the Previous Year 2014-2015 from playing Badminton Matches. He has deposited ₹1 Lakh in Public Provident Fund during the year. Compute his Income Tax Liability for Assessment Year 2015-2016.

[4]

(ii) T has rented out his agricultural land to S who uses the same for agricultural purposes. As per the agreement, 'S' will pay the rent in the shape of agricultural produce from the land to T. T has received during the previous year agricultural produce valued at ₹60,000. He has consumed agricultural produce worth ₹40,000 for his own consumption and the balance has been sold by him for ₹20,000.

Compute the total income for the assessment year 2015-16 assuming he is getting a salary of ₹20,000 p.m. from Y Ltd. He has no other income. Also compute the tax payable by him.

[3]

(iii) Suvridha Hospitals Pvt. Ltd, the Assessee, has recently been accorded recognition by several Insurance Companies to admit and treat patients on cashless hospitalization basis. Payment to the Assessee Hospital will be made by Third Party Administrators (TPA) who will process the claims of the patients admitted and make the payments to the various hospitals including the Assessee. All TPAs are Corporate Entities. The Assessee wants to know whether the TPAs are bound to deduct tax at source u/s 194J or u/s 194C.

[3]

(b) During the year ended 31-3-2015, Anil & Co. (partnership firm), running a coaching centre, has collected a sum of ₹ 10.2 lakhs as service tax. ₹ 70,000 was met through CENVAT credit and the balance was paid by cheque on various dates. The details pertaining to the quarter ended 30-9-2015 are as under (all sums exclusive of service tax):

MTP_Final_Syllabus 2012_Dec2015_Set 2

Particulars	Amount (₹)
Value of free coaching rendered	30,000
Coaching fees collected from students	14,50,000
Advance received from a college for coaching their students on 30-9-2015.	3,00,000

Determine the service tax liability for the quarter and indicate the date by which the service tax has to be remitted by the assessee. **[4]**

Section B

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

7. Answer the following Questions [3x5=15]

- (a) Can the Assessing Officer reopen an assessment on the basis of merely a change of opinion? **[5]**
- (b) Whether the Tribunal was right in law in upholding the order of the CIT(A) in deleting the trading addition made by the Assessing Officer, as the assessee failed to produce the quantitative details of raw materials and finished products? **[5]**
- (c) Is the Assessing Officer's refusal to deliver a carbon copy of the statement on oath taken at the time of special survey under section 133A valid or against the law? **[5]**

8. Answer the following Questions [5x3=15]

- (a) Can the excess duty paid by the seller be refunded on the basis of the debit note issued by the buyer? **[5]**
- (b) Discuss the interpretation of phrase "a mistake apparent from record". **[5]**
- (c) Whether non-filing of appeal for some assessment years is a bar in filing appeal for other assessment years? **[5]**

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

- (a) Whether the exempted goods on which duty has been paid by mistake by the assessee and refund thereof has also not been claimed would be excluded while computing turnover for preceding year for claiming SSI exemption? **[7]**
- (b) Can the order of the Settlement Commission be considered to be a judicial proceeding? **[8]**