

Paper 16 - Tax Management and Practice

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Time Allowed: 3 Hours

Full Marks: 100

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

- 1.
- (a) **Fill in the blanks:** **5 x 1 = 5**
- (i) Tax is to be deducted at source, if payment of commission or brokerage exceeds ₹ _____
 - (ii) Interest shall be payable u/s. 234B if the advance tax paid by the assessee during the financial year is less than _____
 - (iii) Goods manufactured in SEZ are called as _____ for the purpose of excise duty.
 - (iv) Anti-dumping duty u/s. 9A of Customs Tariff Act cannot exceed _____
 - (v) Under Composition Scheme, value of materials is _____ (deducted/not deducted) for the purpose of calculation of service tax.
- (b) **Choose the most appropriate alternative.** **5 x 1 = 5**
- (i) X Ltd has taken a building on rent on 1-7-2015 @ ₹ 20,000 p.m. from Y Ltd. Amount of TDS is:
 - (a) ₹ 18,000
 - (b) ₹ 18,540
 - (c) ₹ 24,000
 - (d) Nil
 - (ii) The due date of filing return of income for Assessment Year 2016-17 in case of a working partner of a firm whose accounts are required to be audited is:
 - (a) 31st July of RAY
 - (b) 30th September of RAY
 - (c) 30th November of RAY
 - (d) 30th September or 30th November of RAY as the case may be
 - (iii) Rate of excise duty in the case of Khandsari Molasses shall be rate in force on:
 - (a) The date of manufacture
 - (b) The date of removal
 - (c) The date of purchase by the procurer
 - (d) The date of receipt in the factory of the procurer
 - (iv) Taxable event for customs duty in respect of imports into India shall include:
 - (a) High seas
 - (b) Exclusive Economic Zone
 - (c) Indian Customs Waters
 - (d) Territorial Waters of India
 - (v) Service received from outside India shall be:
 - (a) Taxable in the hands of service provider
 - (b) Taxable in the hands of service receiver
 - (c) Taxable in the hands of service receiver if not exempted
 - (d) Exempt from service tax
- (c) **State true or false with reasons:** **5 x 2 = 10**
- (i) A cooperative society is taxable at the same rate as are applicable to body of individuals.
 - (ii) Tax on dividend received from a domestic company is payable by a shareholder.
 - (iii) Notifications under Central Excise Law are issued by the Parliament.
 - (iv) Special CVD levied u/s. 3(5) cannot exceed rate of local VAT.
 - (v) Services provided by an unit in SEZ is not liable to service tax.

2. A, B and C are carrying on business in partnership as manufacturers of chemicals sharing at 5 : 3 : 2. The following particulars are given for the year –
- (i) Net Profit as per P & L a/c ₹ 2,50,000.
 - (ii) Salary debited to P & L a/c: A - ₹ 50,000; B – ₹ 25,000; C – ₹ 30,000
 - (iii) Interest on capital allowed in P & L a/c.
A @ 14% ₹ 2,800; B @ 16% ₹ 4,800; C @ 12% ₹ 2,400
 - (iv) A machine costing ₹ 60,000 was installed at end of the year and depreciation charged is ₹ 10,000.
 - (v) Bad debts recovered and credited to P & L a/c ₹ 12,000. Total bad debts in the earlier year is ₹ 30,000 of which only ₹ 25,000 was allowed as deduction.
 - (vi) Entertainment expenses not taken into accounts ₹ 4,000.
 - (vii) Rent of premises belonging to A and charged to P & L a/c ₹ 10,000.
 - (viii) Long term capital gain referred u/s. 10 (38) credited to P & L a/c. ₹ 20,000.
 - (ix) Interest on bank fixed deposits credited to P & L a/c ₹ 5,000.
 - (x) Donation to National Draught Relief Fund ₹ 6,000.
- Find out total income and tax payable by the firm and its partners. **16**
3. (a) X Ltd, an industrial undertaking, owns two buildings. WDV on 1-4-2015 is ₹ 25 lakhs. One of the building, which had been purchased on 1-5-2014 for ₹ 12 lakhs is compulsorily acquired by the Government on 31-3-2015 for which a sum of ₹ 45 lakhs is paid as compensation on 1-4-2015. The said building was being used by the company for its industrial activities as a tenant for about 3 years prior to the date of acquisition. The company purchases a new building on 1-4-2016 for ₹ 8 lakhs for the purpose of setting up another industrial undertaking. Compute the amount of capital gain for the relevant assessment year. Suggest a scheme of tax planning. **8**
- (b) Y Ltd has purchased a machine during 2005 for ₹ 3,00,000 for conducting research for their own business. The research is completed on 31-5-2015 and machine is sold for ₹ 1,25,000 on 1-6-2015 without using for any other purpose. Opening WDV of relevant block of assets on 1-4-2015 is ₹ 2,50,000. Discuss the tax consequences for the different assessment years and also suggest a scheme of tax planning. **8**
4. (a) "Shanaz Ltd" engaged in manufacturing of different products was asked by the Central Excise Department to pay an amount of Rs. 25,00,000/- on certain goods manufactured by it, which was deposited during the year 2004-2005 and was claimed as deduction in the return of income filed for that assessment year. This levy of the excise duty was challenged in the High Court, and the Court in June, 2014 held "that the same is not payable by the company". The Excise Department filed appeal challenging the order of the High Court before the Supreme Court. The Assessing Officer issued a show cause on the basis of the decision of the High Court to tax the benefit derived by the company in A.Y.2015-16. **8**
- (b) BCFS Limited is a Non- Banking Financial Company (NBFC). The company has not credited interest of Rs. 30 lakhs due on certain loan accounts which had become non-performing assets in its profit & loss account. As per NBFC Prudential Norms (RBI) Directions, 1998, which is binding on the company, interest or discount or any other charges on non-performing assets shall be recognized as income only when it is actually realized. Can the Assessing Officer make addition of such interest on the ground that the assessee, being a company, follows mercantile system of accounting? **8**

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5. (a) A service has become taxable w.e.f 1-7-2015. Discuss the taxability of such service in the following situations:

Situation	Date of invoice	Value of service	Date of receipt	Amount of receipt
1.	25-6-2015	₹ 2,00,000	26-6-2015	₹ 2,00,000
2.	26-6-2015	₹ 2,40,000	28-6-2015	₹ 3,00,000
3.	27-6-2015	₹ 3,00,000	30-6-2015	₹ 2,40,000
4.	28-6-2015	₹ 4,50,000	05-7-2015	₹ 4,50,000
5.	10-7-2015	₹ 3,50,000	29-6-2015	₹ 3,50,000
6.	16-7-2015	₹ 4,20,000	27-6-2015	₹ 4,20,000

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- (b) A manufacturer produces Khandsari Sugar on 20-4-2015 in which molasses is also generated on which excise duty is chargeable @ 12.5%. He sold and removed 1500 kgs of molasses from his factory on 15-5-2015 @ 80 per kg. The procurer of molasses receives the same on 25-5-2015 in his factory. The rate of excise duty on 25-5-2015 is 10%. Determine:

- Amount of excise duty payable on molasses.
- By whom it will be payable.
- Will it make any difference if molasses is used in the same factory in which it is generated. **(3+2+2)**

6. (a) A manufacturer imports certain goods from Australia at CIF value of AU \$ 50,000. CIF value includes air freight @ 25% and insurance @ 1.5%. Handling charges at the place of importation is ₹ 30,000. The following additional information is provided:

- One AU \$ is equal to ₹ 54 as specified by the Board and ₹ 56 as specified by RBI.
- BCD @ 10%, NCCD @ 1%, CVD u/s. 3(1) @ 12.5% (however, exemption is given by way of notification), CVD u/s. 3(5) @ 4% and cess as applicable.
- It is proposed to levy safeguard duty to the extent of margin of injury.
- Fair selling price of goods in India is ₹ 38,00,000.

You are required to calculate total customs duty.

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- (b) Mr. Dinesh, a practicing CMA in Mumbai provides the following services:

- Services to a bank in Jammu ₹ 40,000.
- Services to a financial institution in Delhi ₹ 15,000.
- Audit services to clients in Chennai ₹ 25,000.
- Consultancy services to an unit in SEZ ₹ 20,000.
- Tribunal appearance to relative without consideration (value of similar service is ₹ 5,000).

Calculate service tax payable. What will be the difference if he is practicing in the state of Jammu/Kashmir? **(6+2)**

7. (a) ABC Ltd. had paid, both the service tax and interest for delayed payment before issue of show cause notice under the Finance Act, 1994. Section 73(3) of the Finance Act, 1994 categorically stated that if the payment of service tax and interest has been intimated to the authorities in writing, the authorities should not serve any notice for the amount so paid. But to the above, the authorities issued SCN to the appellant for delay in payment of service tax.

Discuss with the help of decided case whether the issue of show cause notice is justified. **8**

- (b) M/s. Raj Fibres had filed an appeal to the High Court on Aug.11, 2015 under section 35G of the Central Excise Act, 1944 aggrieved by an order passed by the Appellate Tribunal. The order appealed against was received by the assessee on Jan. 1, 2015. The High Court dismissed the appeal petition on the ground that the same had been

filed beyond the period provided for filing an appeal under section 35G of the Act and the court had no power to condone the delay. M/s. Raj Fibres urged before the High Court that the provisions of the Limitation Act, 1963 should be made available and the delay in presenting the appeal ought to be condoned. State briefly, with reference to decided case law, if any, whether the High Court could condone the delay in presenting the appeal pursuant to the provisions of the Limitation Act, 1963 as urged by M/s. Raj Fibres. **8**

- 8. (a)** X Ltd, an Indian Company purchased certain goods from Y Ltd, a foreign company in France and X Ltd has 3/4th share in equity. FOB value of the goods ₹ 1,200 per unit after a discount of ₹ 200 per unit.
X Ltd also purchased similar type of goods from Z Ltd, another foreign company in Italy and X Ltd has 1/4th Share in equity. CIF value of the goods ₹ 1,400 per unit.
Number of units supplied by Y Ltd is ₹ 25,000 and Z Ltd is ₹ 24,000. Profit shown by X Ltd is ₹ 65 lakhs. Calculate reasonable profits of X Ltd. **8**

- (b)** Mr. P, resident in India, earns the following income:
(i) Rent from property outside India ₹ 1,00,000.
(ii) Business income in India ₹ 2,50,000
(iii) Interest on securities in India ₹ 80,000
(iv) Interest on units of UTI ₹ 30,000
He paid life insurance premium of ₹ 10,000 on a policy amount of ₹ 80,000 which was taken on 1-4-2013. There is ADT agreement according to which tax paid on foreign income is adjusted against tax payable in India. Calculate net tax liability of Mr. P if rate of tax on foreign income is 10%. **8**