

## 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)** ABC Ltd an Indian company has received the following dividend from its subsidiary companies:

1. ₹ 10,00,000 on 5.08.2014 from S Ltd. a subsidiary company in India.
2. ₹20,00,000 on 09.07.2014 from T Ltd., a specified company in Germany in which ABC Ltd. holds 60% shares.

ABC Ltd. wishes to declare dividend of ₹1 crore to its shareholders.

Determine the amount of dividend distribution tax payable by ABC Ltd.

Also determine the tax payable on dividend received from T Ltd. assuming the total income of ABC Ltd. including the above dividend is ₹80,00,000.

What shall be your answer if ABC Ltd. holds 36% shares in T Ltd.

**[9]**

**(b)** 'U' was born in 1977 in India. His parents were also born in India in 1948. His grandparents were, however, born in England. 'U' was residing in India till 15.3.2012. Thereafter, he migrated to England and took the citizenship of that country on 15.3.2014. He visits India during 2014-15 for 90 days. Determine the residential status of 'U' for assessment year 2015-16.

**[5]**

**(2)(a)** Umar Constructions undertakes works contracts and maintains sufficient records to quantify the labour and other service charges. From the details given below, calculate the taxable turnover, input tax credit and net VAT payable under the State VAT Law.

Sl. No.	Particulars	Amount (₹)
(i)	Total contract price (excluding VAT @ 12.5%)	1,95,00,000
(ii)	Materials purchased and used for the contract taxable at 12.5% VAT	

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	(inclusive of VAT)	33,75,000
(iii)	Labour charges paid for execution of the contract (excluding VAT @12.5%)	40,00,000
(iv)	Other service charges paid for the execution of the contract (excluding VAT @12.5%)	20,00,000
(v)	Cost of consumables used not involving transfer of property in goods (excluding VAT @12.5%)	15,00,000

Umar Constructions also purchased a plant for use in the contract for ₹ 20,80,000 (inclusive of VAT). In the VAT invoice relating to the same VAT was charged at 4% separately.

Assume 100% input tax credit is available on capital goods immediately.

**[6]**

**(b)** Boral Ltd., which is engaged in the manufacture of excisable goods started its business in May, 2014. It availed small scale exemption in terms of Notification No. 8/2003-C.E. dated 01-03-2003. The following details are provided (₹);

15,000 kg of inputs purchased @ ₹ 992.70 per kg. (inclusive of excise duty @ 12.36%)	1,48,90,500
Capital goods purchased on 25-06-2014 (inclusive of excise duty at 12.36%)	45,60,000
Finished goods sold (at uniform transaction value throughout the year)	2,50,00,000

Calculate excise duty payable by M/s. Boral Ltd. in cash, if any, during year 2014-15. Rate of duty on finished goods sold may be taken at 12.36% and you may assume that selling price is exclusive of central excise duty. There is neither any processing loss nor any inventory of input and output. Show your workings notes with suitable assumptions as required.

**[6]**

**(c)** Under Central Excise Tariff Act goods are classified using 8-digit system as headings under 'Harmonised System of Nomenclature' — Justify.

**[2]**

**(3) (a)** State the object of introducing Transfer pricing?

**[3]**

**(b)** State the difficulties in applying the arm's length principle?

**[4]**

**(c)** Uday Ltd. of Mumbai (having diversified business) has provided the following services, whose values are listed below. Compute its service tax liability:

- (1) Services provided to a company located in Colombo in relation to organization of a sport event in Colombo: ₹ 25 lakh;
- (2) Services provided to a company located in Srinagar in relation to festival celebration in Srinagar: ₹ 5 lakh;
- (3) Services provided to a company located in Chennai in relation to fashion show in Dubai: ₹12 lakh;
- (4) Services of online database access and retrieval services provided from its website: ₹17 lakhs (out of this, ₹10 lakh was provided to recipients located outside India).

**[5]**

**(d)** Mr. X practicing Cost Accountant received ₹ 20,00,000 (exclusive of service tax) in the June 2014. He paid service tax on 26th July 2014. Gross receipt in the year 2013-14 is ₹ 25 lakhs. You are required to calculate Interest on delay payment of service tax.

**[2]**

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**(4)(a)** From the following particulars, calculate assessable value and total customs duty payable:

- (i) Date of presentation of Bill of entry : 14-05-2014 [Rate of BCD 25%; Exchange Rate: ₹43.40 and rate notified by CBEC ₹ 43.80]
- (ii) Date of arrival of goods in India: 27-05-2014 [Rate of BCD 20%; Exchange Rate; ₹ 44.10 and rate notified by CBEC ₹ 44.20]
- (iii) Rate of Additional Customs Duty : 12%;
- (iv) CIF value 2,000 US Dollar; Air Freight 500 US Dollars, Insurance cost 100 US Dollars [Landing Charges no ascertainable].
- (v) Education Cess applicable 3%
- (vi) Assume there is no special CVD.

Also determine the Cenvat credit eligibility if the buyer is — (1) manufacturer; (2) service provider and (3) trader. [Provide working notes as and when required] **[6]**

**(b)** When is the CENVAT Credit on inputs not admissible? **[5]**

**(c)** What is Automation of Central Excise and Service Tax or ACES? **[3]**

**(5)(a)** Determine the Gross Total Income of X and his wife from the following particulars for the year ending 31.3.2015:

- (i) X and his wife are partners in a firm carrying on cloth business, their respective shares of profit being ₹78,000 and ₹60,000.
- (ii) Their 16 years old son has been admitted to the benefits of another firm, from which he received ₹80,000 as his share of profit in the firm and ₹90,000 as interest on capital. The capital was invested out of the minor's own funds amounting to ₹9,00,000.
- (iii) A house property in the name of X was transferred to his wife on 1.12.2014 for adequate consideration. The property has been let at a rent of ₹30,000 p.m
- (iv) Debentures of a company of ₹1,40,000 and ₹1,12,000 purchased two years ago are in the names of X and his wife respectively, on which interest is receivable at 10% p.a. His wife had in the past transferred ₹70,000 out of her income to X for the purchase of the debentures in X's name.
- (v) X had transferred ₹50,000 to his wife in the year 2010 without any consideration which was given as a loan by her to Y. She earned ₹20,000 as interest during the earlier previous years which was also given on loan to Y. During the financial year 2014-15, she received interest at 10% p.a. on ₹70,000.
- (vi) X transferred ₹75,000 to a trust, the income accruing from its investment as interest amounted to ₹7,500, out of which ₹5,000 shall be utilised for the benefit of his son's wife and ₹2,500 for the benefit of his son's minor child. **[10]**

**(b)** Q, a resident of India, aged 81 years, submits the following information for the previous year 2014-15:

		₹
(1)	Income from salary	4,86,000
(2)	Interest on Fixed Deposits with Banks (gross)	49,000
(3)	Long-term capital gains	1,10,000
(4)	Short-term capital gains on the sale of equity shares on which securities	10,000

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He pays ₹5,000 as Life Insurance Premium on a policy of ₹40,000 and deposits ₹22,000 in Public Provident Fund account.

Compute the tax payable by Q for the assessment year 2015-16.

**[4]**

**(6)(a)** R, S, G are three members of an AOP sharing profit and losses in the ratio of 2:2:1. The profit and loss account of the AOP for year ending 31.3.2015 is as follows:

	₹		₹
Cost of good sold	52,00,000	Sales	63,00,000
Interest to members @ 24%		Long-term capital gain	1,60,000
R	48,000		
S	72,000		
G	24,000		
Salary to members			
R	90,000		
G	40,000		
Other expenses	3,80,000		
Net Profit	6,06,000		
	64,60,000		64,60,000

Other Information:

1. The AOP gives a donation of ₹40,000 to a public charitable trust (not debited to P/L A/c) which is eligible u/s 80G.
2. Out of other expenses ₹20,000 are not deductible by virtue of section 43B.

Other incomes and particulars of the members are given below.

	Amount ₹	Nature of Income	Deduction u/s 80D	PPF contribution ₹
R	1,22,000	Saving bank Interest	₹3,000 medical	12,000
S	1,16,000	Saving bank Interest		4,000
	10,000	Dividend from U.T.I		
G	1,10,000	Interest on company Deposits	₹4,000 medical insurance premium	5,000

Find out the liability of the AOP and members for the assessment year 2015 –16.

**[9]**

**(b)** DEB Ltd. has a manufacturing unit situated in Lucknow. In the financial year 2014-15, the total value of clearances from the unit was ₹ 465 lakhs.

The breakup of clearances is as under:

- i. Clearances worth ₹ 85 lakhs of certain non-excisable goods manufactured by it.
- ii. Clearances worth ₹ 55 lakhs exempted under specified job work notification.
- iii. Exports worth ₹ 100 lakhs (₹ 75 lakhs to USA and ₹ 25 lakhs to Nepal).
- iv. Clearances worth ₹ 50 lakhs which were used captively to manufacture finished products those are exempt under notifications other than Notification No. 8/2003-CE., dated 01-03-2003 as amended.
- v. Clearances worth ₹ 200 lakhs of excisable goods in the normal course.

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Explain briefly, the treatment for various items and state, whether the unit will be eligible for the benefits of exemption under Notification No. 8/2003-CE dated 1-3-2003 as amended for the financial year 2015-16. **[5]**

### **Section B**

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

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

- (a)** Would expenditure incurred on feasibility study conducted for examining proposals for technological advancement relating to the existing business be classified as a revenue expenditure, where the project was abandoned without creating a new asset?
- (b)** Whether the amount received by the assessee under a lease agreement is income from other sources or business income?
- (c)** Can exemption under section 54F be denied to an assessee in respect of investment made in construction of a residential house, on the ground that the construction was not completed within three years after the date on which transfer took place, on account of pendency of certain finishing work like flooring, electrical fittings, fittings of door shutter, etc?

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

- (a)** Whether the metal scrap or waste generated during the repair of his worn out machineries/ parts of cement manufacturing plant by a cement manufacturer amounts to manufacture? **[8]**
- (b)** In case of specific classification viz-a-viz classification based on material used/ composition of goods, which one should be adopted? **[7]**

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

- (a)** Assessee a company entered into a collaboration agreement with owner of an immovable property, who executed a General Power of Attorney (GPA) in assessee's favour - Sub-Registrar resisted to register GPA on basis of circular issued by Government of NCT of Delhi, holding that transaction was, in effect, a transaction of sale, and it was sought to evade stamp duty - Whether, circular directing Registrars not to register conveyance of immovable property based on a GPA, was contrary to observation of Supreme Court and was liable to be set aside. **[8]**
- (b)** Can the plastic dropper supplied along with pediatric drops be considered as an input used in or in relation to manufacture of final product (pediatric drops)? **[7]**